

SAN FRANCISCO PUBLIC LIBRARY



3 1223 11169 6655

D  
REF  
387.1  
Sa593r



5 / S

*San Francisco Public Library*

Government Information Center  
San Francisco Public Library  
100 Larkin Street 5<sup>th</sup> Floor  
San Francisco, CA 94102

REFERENCE BOOK

*Not to be taken from the Library*



Digitized by the Internet Archive  
in 2016



# SAN FRANCISCO PORT COMMISSION

Leslie Katz, President  
Willie Adams, Vice President  
Kimberly Brandon, Commissioner  
Mel Murphy, Commissioner  
Doreen Woo Ho, Commissioner

Monique Moyer, Executive Director  
Phone: 415-274-0400; Fax 415-274-0412

Amy Quesada, Commission Secretary  
Phone: 415-274-0406; Fax 415-274-0412

## **SPECIAL MEETING AGENDA** **TUESDAY, NOVEMBER 18, 2014** **2:00 P.M. CLOSED SESSION** **3:15 P.M. OPEN SESSION**

**PORT COMMISSION HEARING ROOM, SECOND FLOOR  
FERRY BUILDING, SAN FRANCISCO CA 94111**

*The Port Commission Agenda as well as Staff Reports/Explanatory Documents available to the public and provided to the Port Commission are posted on the Port's Website at [www.sfport.com](http://www.sfport.com). The agenda packet is also available at the Pier 1 Reception Desk. If any materials related to an item on this agenda have been distributed to the Port Commission after distribution of the agenda packet, those materials are available for public inspection at the Port Commission Secretary's Office located at Pier 1 during normal office hours.*

### **1. CALL TO ORDER / ROLL CALL**

### **2. APPROVAL OF MINUTES – October 28, 2014**

### **3. PUBLIC COMMENT ON EXECUTIVE SESSION**

### **4. EXECUTIVE SESSION**

A. Vote on whether to hold closed session.

#### **(1) CONFERENCE WITH LEGAL COUNSEL REGARDING EXISTING LITIGATION MATTER (Discussion and Action Item):**

- a. Discuss existing litigation matters and possible approval of proposed settlement pursuant to Sections (a) and (d) of California Government Code Section 54956.9 and San Francisco Administrative Code Section 67.10(d):
  - Carl Ernst, Jr., individually and as successor in interest to Pier 38 Maritime Recreation Center, Inc. v. Monique Moyer; the City and County of San Francisco, and related cross-action; San Francisco



Superior Court (Case No. CGC-10-501887 filed July 23, 2010) ("Ernst Case")

- City and County of San Francisco v. Carl Ernst, Jr., and Pier 38 Maritime Recreation Center, Inc.; San Francisco Superior Court (Case No. CUD-07-621476 filed March 27, 2007) ("2007 UD Action")
- City and County of San Francisco v. Carl Ernst, Jr.; San Francisco Superior Court (Case No. CUD 09-631352 filed November 5, 2009) ("2009 UD Action"), and related appeal to California Court of Appeal, First District (Case No. A133139 filed September 11, 2011) ("Unlawful Detainer Appeal")

Proposed settlement of litigation between the Port and Carl Ernst Jr. ("Ernst"), individually, and as successor to Pier 38 Maritime Recreation Center, Inc. (collectively, the "Parties"). The claims that Ernst alleged against the Port include breach of contract and partial eviction. The claims that the Port alleged against Ernst include breach of contract, trespass, nuisance and waste.

The terms of the proposed settlement include (i) the Parties' mutual dismissal with prejudice of the Ernst Case; (ii) the Port's filing of a full satisfaction of the judgment in favor of the Port and against Ernst for \$871,698 in the 2009 UD Action; (iii) Ernst's filing of a full satisfaction of the judgment in favor of Ernst against the Port for \$49,910 in the 2007 UD Action; (iv) Ernst's filing of a request for dismissal with prejudice of the Unlawful Detainer Appeal; (v) a mutual release of claims between the Parties; and (vi) other terms and conditions contained in the proposed Settlement Agreement and Mutual Release among the Parties on file with the Port Commission Secretary.

- (2) CONFERENCE WITH LEGAL COUNSEL AND REAL PROPERTY NEGOTIATOR – This is specifically authorized under California Government Code Section 54956.8. \*This session is closed to any non-City/Port representative:

- a. Property: AB 4052; 4111, lots 3 and 4; also known as Pier 70 Waterfront Site, located near the intersection of 22nd Street and Illinois  
Person Negotiating: Port: Byron Rhett, Deputy Director, Planning and Development  
\*Negotiating Parties: Forest City Development California: Kevin Ratner, Alexa Arena and Jack Sylvan

Under Negotiations: \_\_\_\_ Price \_\_\_\_ Terms of Payment ☒ Both





Pursuant to Resolution No. 11-49, the Port Commission awarded to the non-Port party an exclusive negotiation agreement with the Port for the lease and development of the property. In this executive session, the Port's negotiators seek direction from the Port Commission regarding price and/or terms of payment, including rent structure, financing mechanisms, and other factors affecting the form, manner and timing of payment of the consideration for the property interests. The executive session will enhance the capacity of the Port Commission during its public deliberations and actions to set the price and payment terms that are most likely to maximize the benefits to the Port, the City and the People of the State of California.

**(3) PUBLIC EMPLOYEE PERFORMANCE EVALUATION (Discussion Item)**

Monique Moyer, Port Executive Director. Discussion of Performance Evaluation pursuant to Section 67.10(b) of the Administrative Code and Section 54957(b) of the California Government Code.

**5. RECONVENE IN OPEN SESSION**

- A. Possible report on actions taken in closed session pursuant to Government Code Section 54957.1 and San Francisco Administrative Code Section 67.12.
- B. Vote in open session on whether to disclose any or all executive session discussions pursuant to Government Code Section 54957.1 and San Francisco Administrative Code Section 67.12.

**6. PLEDGE OF ALLEGIANCE**

**7. ANNOUNCEMENTS**

- A. Announcement of Prohibition of Sound Producing Electronic Devices during the Meeting: Please be advised that the ringing of and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing of or use of a cell phone, pager, or other similar sound-producing electronic device.
- B. Announcement of Time Allotment for Public Comments: Please be advised that a member of the public has up to three minutes to make pertinent public comments on each agenda item unless the Port Commission adopts a shorter period on any item.

**8. PUBLIC COMMENT ON ITEMS NOT LISTED ON THE AGENDA**

Public comment is permitted on any matter within Port jurisdiction and is not limited to agenda items. Public comment on non-agenda items may be raised during Public Comment Period. A member of the public has up to three minutes to make



pertinent public comments. Please fill out a speaker card and hand it to the Commission Secretary. If you have any question regarding the agenda, please contact the Commission Secretary at 274-0406. No Commission action can be taken on any matter raised during the public comment period for items not listed on the agenda other than to schedule the matter for a future agenda, refer the matter to staff for investigation or respond briefly to statements made or questions posed by members of the public. (Government Code Section 54954.2(a))

## **9. EXECUTIVE**

### **A. Executive Director's Report**

- Crab Season Opening Day – November 14, 2014
- Special Port Commission Meeting – December 16, 2014
- Schedule of Port Commission Meetings for 2015 attached hereto
- San Francisco's Exploratorium and EHDD Architecture Win Prestigious Urban Land Institute Global Award for Excellence
- Presentation by Major General J. Michael Myatt (Ret.), U.S. Marine Corps and Fleet Week Chairman
- Special Recognition for Jonathan Stern, Assistant Deputy Director of Planning and Development
- In Memoriam – Sal Tarantino, S.P. Tarantino Insurance, Port Tenant

### **B. Port Commissioners' Report - Without discussion, at this time Commissioners may make announcements regarding various matters of interest to the Commissioner(s):**

- Signing of Philippine Ports Authority and Port of San Francisco Sister Port Agreement – November 7, 2014

## **10. CONSENT**

All matters listed hereunder constitute a Consent Agenda are considered to be routine by the Port Commission and will be acted upon by a single roll call vote of the Port Commission. There will be no separate discussion of these items unless a member of the Port Commission so requests, in which event the matter shall be removed from the Consent Agenda and considered as a separate item.

- ### **A. Request approval to conduct an informal solicitation from a qualified pool for financial advisory service for a term of three years with an option to extend for two years, with a not-to-exceed amount of \$140,000 annually, or \$420,000 for the life of the contract term. (Resolution No. 14-59)**

## **11. MARITIME**

- ### **A. Informational presentation regarding Lease No. L-15875 with BAE Systems San Francisco Ship Repair, Inc., a California corporation, located at Piers 68 and 70 and Seawall Lot 349 near 20th and Illinois Street, for approximately**



14.4 acres of land improved with 19 buildings, 17.4 acres of submerged land and Port-owned Equipment, including Drydock #2, the Drydock Eureka and the Shoreside Power System (the "Shipyard"), for a term of 20 years with two (2) five (5) year extension options.

## **12. PLANNING & DEVELOPMENT**

- A. Request approval of an Amended and Restated Exclusive Negotiation Agreement between the Port of San Francisco and Seawall Lot 337 Associates, LLC for the lease and development of Seawall Lot 337 and Pier 48 bounded by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay and adjacent to AT&T Park. (Resolution No. 14-60)
- B. Informational presentation on Lease No. L-15892 between the Port of San Francisco and TMG Pier 38 Partners, a California Limited Liability company for premise located at Pier 38 in the Central Waterfront on The Embarcadero at Delancey Street with an initial term of 25 years plus two (2) five (5) year extension options granted at the sole discretion of the Port.

## **13. FINANCE & ADMINISTRATION**

- A. Request approval of Fiscal Year 2014-15 Executive Director Salary. (Resolution No. 14-61)

## **14. NEW BUSINESS**

## **15. ADJOURNMENT**



**FORWARD CALENDAR  
(TARGETED COMMISSION MEETING, SUBJECT TO CHANGE)**

**DECEMBER 16, 2014 – SPECIAL MEETING**

	<b>FACILITY/POLICY</b>	<b>ITEM</b>	<b>TITLE</b>
1	Pier 80	Informational	Presentation on Cargo Marketing Plan for Pier 80 in conjunction with Metro Ports and the International Longshore and Warehouse Union
2	Portwide	Informational	Presentation on Water Taxi Operations at the Port
3	Pier 33½	Informational	Presentation regarding the request for proposals for the retail opportunity at Pier 33½
4	South Beach	Action	Port Commission's consideration of agreements between the Port Commission and the Successor Agency to mutually terminate 13 ground leases in the South Beach project area and set business terms for the transfer of the South Beach Harbor Program
5	Pier 38	Action	Approval of a Lease Agreement with TMG Pier 38 Partners, LLC for the Pier 38 Bulkhead Rehabilitation Project located at Delancey Street and The Embarcadero for XXX square feet of bulkhead and pier shed space for an initial term of 25 years
6	Piers 68/70	Action	Approval of Lease No. L-15875 with BAE Systems San Francisco Ship Repair, Inc., a California corporation, located at Piers 68 and 70 and Seawall Lot 349 near 20 <sup>th</sup> and Illinois Street, for approximately 14.4 acres of land improved with 19 buildings, 17.4 acres of submerged land and Port-owned Equipment, including Drydock #2, the Drydock Eureka and the Shoreside Power System (the "Shipyard"), for a term of 20 years with two (2) five (5) year options
7	Portwide	Action	Authorization to enter into a contract for Emergency Operations Training
8	Portwide	Action	Authorization to award Construction Contract No. 2769, Port Security Fences, Phase IV
9	Daggett Street	Action	Approval of Memorandum of Understanding between the Port and the City's Real Estate Department authorizing the jurisdictional transfer of the Daggett Street Right-of-Way from the Port to the City for a transfer fee of \$1.6 Million.





**JANUARY 13, 2015**

	<b>FACILITY/POLICY</b>	<b>ITEM</b>	<b>TITLE</b>
1	SWL 337	Informational	Presentation regarding a special event in excess of 90-days at Port property at Seawall Lot 337, including a review of the special event's proforma, pursuant to Lease No. L-14980 between Port and China Basin Ballpark Company, LLC.
2	Portwide	Informational	Presentation of Public Comments and Recommendations on the Waterfront Land Use Plan Review Report
3	Pier 29	Informational	Presentation on Request for Proposals (RFP) for a Retail Leasing Opportunity at the Pier 29 Bulkhead Building, located at Chestnut Street and The Embarcadero
4	Portwide	Informational	Presentation of the Draft Port Commercial Sign Guidelines
5	Portwide	Action	Election of Port Commission Officers
6	Pier 33½	Action	Authorization to award the RFP for retail opportunity at Pier 33½ to most qualified bidder and to direct staff to negotiate a lease
7	Pier 49	Action	Authorization to advertise for competitive bids for Construction Contract No. 2772, Wharf J-1 (Pier 49) Under-Pier Sewer Replacement Project
8	Pier 96	Action	Authorization to advertise and issue a Request for Proposals (RFP) soliciting a developer and operator for a Bulk Export Maritime Terminal Operation at Pier 96

**FEBRUARY 10, 2015**

	<b>FACILITY/POLICY</b>	<b>ITEM</b>	<b>TITLE</b>
1	Portwide	Informational	Presentation on the Port's Load Restricted and Fully Restricted (Red-Tagged) Facilities
2	Portwide	Informational	Presentation on the Port's Five-Year Financial Plan for Fiscal Years 2015-16 through 2019-20
3	Portwide	Informational	Presentation on the Port's supplemental appropriation to the Fiscal Year 2015-16 Operating and Capital Budget
4	Portwide	Informational	Presentation of the Port's 10-Year Capital Plan for FY 2015-2024



## DATE TO BE DETERMINED

	FACILITY/POLICY	ITEM	TITLE
1	Piers 30-32	Informational	Presentation of alternatives for reuse of Piers 30-32
2	Portwide	Informational	Presentation on quality of Port's office space portfolio & required improvements
3	Pier 31	Action	Authorization to advertise for competitive bids for Construction Contract No. 2762, Pier 31 Building and Roof Repairs
4	Pier 70	Action	Authorization to advertise for competitive bids for Construction, Crane Cove Park Project Phase 1
5	Pier 94 and 96	Action	Authorization to advertise for competitive bids for Construction, Pier 94-96 Storm Drain and Outfall repairs
6	Loading Dock near Tulare Street	Action	Authorization to advertise for competitive bids for Construction, Copra Crane Refurbishment
7	3rd Street & Cargo Way Triangle and Cargo Way	Action	Authorization to advertise for competitive bids for Construction, Quint Street Lead Improvement Project
8	Pier 35	Action	Authorization to advertise for competitive bids for Construction, Pier 35 Substructure Repairs
9	Pier 31	Action	Authorization to award Construction Contract No. 2762, Pier 31 Building and Roof Repairs
10	Pier 49	Action	Authorization to award Construction Contract No. 2772, Wharf J-1 (Pier 49) Under-Pier Sewer Replacement Project
11	Portwide	Action	Authorization to enter into a contract for Youth Employment Services



**DECEMBER 2014/JANUARY 2015  
CALENDAR OF UPCOMING PORT MEETINGS – OPEN TO THE PUBLIC**

DATE	TIME	GROUP	LOCATION
December 16	2:00 PM Closed Session	Port Commission	Port Commission Hearing Room at the Ferry Building
	3:15 PM Open Session	Port Commission	Port Commission Hearing Room at the Ferry Building
January 13	2:00 PM Closed Session	Port Commission	Port Commission Hearing Room at the Ferry Building
	3:15 PM Open Session	Port Commission	Port Commission Hearing Room at the Ferry Building

**NOTES:**

The San Francisco Port Commission meets regularly on the second and fourth Tuesday of the month at 3:15 p.m., unless otherwise noticed. The Commission Agenda and staff reports are posted on the Port's Website @ [www.sfport.com](http://www.sfport.com). The Port Commission meetings can be viewed online at [http://sanfrancisco.granicus.com/ViewPublisher.php?view\\_id=92](http://sanfrancisco.granicus.com/ViewPublisher.php?view_id=92). The Port Commission meetings are also broadcasted on the 2nd & 4th Thursday of the month at 9 p.m. on Comcast Cable Channel 26 or Astound Cable Channel 78 (formerly RCN Cable). Contact Amy Quesada at 274-0406 or [amy.quesada@sfport.com](mailto:amy.quesada@sfport.com)

The Fisherman's Wharf Waterfront Advisory Group (FWWAG) meets regularly on a bi-monthly basis, on the third Tuesday of the month. The regular meeting time and place is 9:00 a.m. at Scoma's Restaurant, Pier 47 at Fisherman's Wharf. Contact Rip Malloy @ 274-0267 or [rip.malloy@sfport.com](mailto:rip.malloy@sfport.com)

The Maritime Commerce Advisory Committee (MCAC) meets every other month, on the third Thursday of the month, from 11:30 a.m. to 1:00 p.m. @ Pier 1. Contact Jim Maloney @ 274-0519 or [jim.maloney@sfport.com](mailto:jim.maloney@sfport.com)

The Mission Bay Citizens Advisory Committee meets on the second Thursday of the month at 5:00 p.m. in the Creek Room at Mission Creek Senior Building located at 225 Berry Street in San Francisco (along the Promenade just beyond the library.) Contact Catherine Reilly at the former Redevelopment Agency @ 749-2516 or [catherine.reilly@sfgov.org](mailto:catherine.reilly@sfgov.org)

The Northeast Waterfront Advisory Group (NEWAG) meets regularly on a bi-monthly basis on the first Wednesday of the month from 5:00 p.m. to 7:00 p.m. in the Bayside Conference Room @ Pier 1. Contact Jonathan Stern @ 274-0545 or [jonathan.stern@sfport.com](mailto:jonathan.stern@sfport.com)

The Central Waterfront Advisory Group (CWAG) meets monthly on an as-needed basis, generally on the third Wednesday of the month from 5 to 7 p.m. in the Bayside Conference Room at Pier 1. Contact Mark Paez @ 705-8674 or [mark.paez@sfport.com](mailto:mark.paez@sfport.com)

The Southern Waterfront Advisory Committee (SWAC) meets every last Wednesday of the month from 6:15 to 8:15 p.m. Location to be determined. Contact David Beaupre @ 274-0539 or [david.beaupre@sfport.com](mailto:david.beaupre@sfport.com)

The Waterfront Design Advisory Committee (WDAC) meets jointly with the Design Review Board of the Bay Conservation and Development Commission on the first Monday of the month at BCDC, 50 California Street, Rm. 2600, at 6:30 p.m. The Committee meets as needed on the fourth Monday of the month at 6:30 p.m. in the Bayside Conf. Rm. @ Pier 1. Contact Dan Hodapp @ 274-0625 or [dan.hodapp@sfport.com](mailto:dan.hodapp@sfport.com)



## **ACCESSIBLE MEETING INFORMATION POLICY**

### **FERRY BUILDING:**

The Port Commission Hearing Room is located on the second floor of the Ferry Building. The main public entrance is from the west (Embarcadero) side and is served by a bank of elevators adjacent to the historic staircase. Accessible public restrooms are on the first floor at the northeast end of the building as well as on the second floor across the lobby from the Port Commission Hearing Room. The main path of travel to the Port Commission Hearing Room is equipped with remote infrared signage (Talking Signs). The Port Commission Hearing Room is wheelchair accessible. Accessible seating for persons with disabilities (including those using wheelchairs) is available. The closest accessible BART and MUNI Metro station is Embarcadero located at Market & Spear Streets. Accessible MUNI lines serving the Ferry Building area are the F-Line, 9, 31, 32 and 71. For more information about MUNI accessible services, call (415) 923-6142. The nearest accessible parking is provided in the following off-street pay lots: 3 spaces in the surface lot on the west side of the Embarcadero at Washington Street.

Hourly and valet parking is available in the Pier 3 lot. This lot is accessed through the Pier 3 bulkhead building entrance on the east side of the Embarcadero. This lot is located on the pier deck; adjacent to the ferry boat Santa Rosa. Additional covered accessible off-street pay parking is available in the Golden Gateway Garage, which is bounded by Washington, Clay, Drumm and Battery Streets. Entrance is on Clay St. between Battery and Front Streets. There is no high-top van parking. Metered street parking is available on the Embarcadero, Washington, Folsom & Drumm Streets.

In order to assist the City's efforts to accommodate persons with severe allergies, environmental illness, multiple chemical sensitivity or related disabilities, attendees at public meetings are reminded that other attendees may be sensitive to various chemical based products. Please help the City to accommodate these individuals.

### **Disability Accommodations:**

To request assistive listening devices, sign language interpreters, readers, large print agendas or other accommodations, please contact Wendy Proctor, Port's ADA Coordinator at (415) 274-0592 or via email at [wendy.proctor@sfpport.com](mailto:wendy.proctor@sfpport.com) or Amy Quesada, Commission Secretary, at (415) 274-0405 or via email at [amy.quesada@sfpport.com](mailto:amy.quesada@sfpport.com) at least 72 hours in advance of the hearing. The Port's TTY number is (415) 274-0587.

### **Language Assistance**

**311 Free language assistance / 免費語言協助 / Ayuda gratuita con el idioma / Бесплатная помощь переводчиков / Trợ giúp Thông dịch Miễn phí / Assistance linguistique gratuite / 無料の言語支援 / 무료 언어 지원 / ʁəˈʁɑː ˈʁɑː ˈʁɑː / Librang tulong para sa wikang Tagalog**

## **NOTICES**

### **Know Your Rights Under the Sunshine Ordinance:**

Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils and other agencies of the City and County exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review. For more information on your rights under the Sunshine Ordinance (Sections 67.1 et seq. of the San Francisco Administrative Code)





or to report a violation of the ordinance, contact Chris Ruston by mail: Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco CA 94102-4689; by phone at (415) 554-7724; by fax at (415) 554-7854 or by email at [sotf@sfgov.org](mailto:sotf@sfgov.org). Citizens interested in obtaining a free copy of the Sunshine Ordinance can request a copy from Mr. Ruston or by printing Sections 67.1 et seq. of the San Francisco Administrative Code on the Internet, at <http://www.sfgov.org/sunshine>.

**Prohibition of Ringing of Sound Producing Devices:**

The ringing of and use of cell phones, pagers, and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing or use of a cell phone, pager, or other similar sound-producing electronic device.

**Lobbyist Registration and Reporting Requirements:**

Individuals and entities that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance (SF Campaign & Government Conduct Code Sections §2.100 – 2.160) to register and report lobbying activity. For more information about the Lobbyist Ordinance, please contact the San Francisco Ethics Commission at 30 Van Ness, Suite 3900, San Francisco, CA 94102, phone (415) 581-2300 or fax (415) 581-2317; web site: [www.sfgov.org/ethics](http://www.sfgov.org/ethics).

**CEQA Appeal Rights under Chapter 31 of the San Francisco Administrative Code:**

If the Commission approves an action identified by an exemption or negative declaration as the Approval Action (as defined in S.F. Administrative Code Chapter 31, as amended, Board of Supervisors Ordinance Number 161-13), then the CEQA decision prepared in support of that Approval Action is thereafter subject to appeal within the time frame specified in S.F. Administrative Code Section 31.16. Typically, an appeal must be filed within 30 calendar days of the Approval Action. For information on filing an appeal under Chapter 31, contact the Clerk of the Board of Supervisors at City Hall, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102, or call (415) 554-5184. If the Department's Environmental Review Officer has deemed a project to be exempt from further environmental review, an exemption determination has been prepared and can be obtained on-line at <http://sf-planning.org/index.aspx?page=3447>. Under CEQA, in a later court challenge, a litigant may be limited to raising only those issues previously raised at a hearing on the project or in written correspondence delivered to the Board of Supervisors, Planning Commission, Planning Department or other City board, commission or department at, or prior to, such hearing, or as part of the appeal hearing process on the CEQA decision.





## MEMORANDUM

November 14, 2014

**TO:** MEMBERS, PORT COMMISSION  
Hon. Leslie Katz, President  
Hon. Willie Adams, Vice President  
Hon. Kimberly Brandon  
Hon. Mel Murphy  
Hon. Doreen Woo Ho

**FROM:** Monique Moyer *Monique Moyer*  
Executive Director

**SUBJECT:** Request approval to conduct an informal solicitation from a qualified pool for financial advisory service for a term of three years with an option to extend for two years, with a not-to-exceed amount of \$140,000 annually, or \$420,000 for the life of the contract term

**STAFF'S RECOMMENDATION:** Approve Attached Resolution

---

### ***Background***

Port Finance relies on financial advisor services to provide specialized skills related to bond issuance, including an expert understanding of, municipal and IFD bond financing and issuance, bond sizing and structuring, and bond pricing. A financial advisor will also provide an understanding of current capital market conditions, access to bond trading desks at investment banks, and other expertise that will assist staff in formulating financing strategies and plans intended to meet the Port's objective of funding its ten year capital plan in a cost effective manner. Financial Advisor Services also assist in modeling financial impacts of various scenarios. The Port's Financial Advisor Services contract with Public Financial management (PFM) expired in April of 2014.

Port staff is proposing an original contract term for financial advisory services of three years, with an option to extend the term for an additional period of two years, which the Port may exercise in its sole and absolute discretion. The budget includes \$140,000 for these services for FY 2014-15 and \$140,000 for FY 2015-16.

**THIS PRINT COVERS CALENDAR ITEM NO. 10A**



## ***Scope of Services***

The following is a description of the major services that the financial advisor will be expected to provide to the Port:

1. Provide assistance with the development of a financing plan for the Port's ten year capital program, including assistance in developing financial models to evaluate financing alternatives.
2. Provide assistance with modeling the Port's financial forecast to evaluate a variety of investment options relative to the Port's budget, financial position and bonding capacity.
3. Provide information, judgments, and forecasts on general economic and capital market conditions. Review new financial products and techniques and advise Port staff on their suitability for use by the Port.
4. Provide assistance with the timing, sizing and structuring of bond financings. Help Port staff to determine the most appropriate method of sale (competitive or negotiated), and assist in developing syndication policies and any other matters that will meet the Port's objective of obtaining the lowest practical interest cost and the widest competition of purchasers for its securities.
5. Assist Port staff with presentations to credit rating agencies, underwriters, institutional investors, credit enhancers (if applicable), and other capital market entities, as needed.
6. Provide the Port with an analysis of the benefit of credit enhancement, such as bond insurance, letters of credit, and liquidity facilities. Assist in obtaining any credit enhancement product and in negotiating their fees and terms.
7. Provide advice and assistance to the Port on reinvestment strategies for bond proceeds, bond reserve and other funds associated with each bond financing.
8. Review and evaluate all bids for each bond financing, and assist Port staff in negotiating pricing and bond allocations.
9. Assist Port staff in the preparation and review of all legal and financing documents in coordination with the City Attorney and other relevant parties.
10. Participate in pre-closing and closing activities of all financings to ensure that the financing documents accurately reflect the terms of the transaction. At the completion of each financing, prepare a summary of the transaction describing any unique features, security, and other characteristics of the transaction.
11. Make available qualified personnel for consultations and conferences with Port and City staff and others as required. Attend meetings of the Port Commission, and other public meetings as needed.



12. Perform other financial advisory services as may be required.

### ***Selection Process***

Port staff propose to procure the above services through an informal solicitation process from a City established prequalified pool of Finance Advisors. On January 30, 2014, the Controller's Office of Public Finance created a list of consultants with demonstrated experience in municipal financial advisory services that are prequalified to enter contract negotiations with the City. The reason to use the Controller's prequalified pool of consultants rather than issuing a request for proposals is that the Controller established the pool to streamline the selection of financial advisory services for City departments. Selecting from the pool will shorten the selection process by three months and allows limited Port contracting staff to focus on other solicitations. The prequalified procurement process fully screened for qualifications. The pool includes 15 consultants, of which three are LBEs and two are minority-owned (see attached list). The Port will solicit proposals from all the qualified firms in the pool and convene a qualified panel to review the responses.

### ***Local Business Enterprise (LBE) Participation***

Upon review of the anticipated professionals needed to provide the Port with the financial advisory services described above, the Contracts Monitoring Division has determined that the contract will have a Local Business Enterprise participation goal of twenty percent (20%) of the total value of services provided.

### ***Schedule***

On June 16, 2014, Port staff received Civil Service Commission approval to contract out the financial advisory services described above. The proposed RFP schedule is as follows:

#### **Proposal Phase**

#### **Date**

Issue Informal Solicitation	December 1, 2014
Proposal deadline	December 19, 2014
Oral interviews	January 7, 2015
Notify successful respondent	January 9, 2015
Port Commission consideration of Selected respondent	January 13, 2015 (tentative)

### ***Recommendation***

Port staff recommends that the Port Commission adopt the attached resolution authorizing Port staff to issue an informal solicitation from an established prequalified pool for Financial Advisory Services.

Prepared by: Elaine Forbes, Deputy Director  
Finance and Administration





**PORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO**

**RESOLUTION NO. 14-59**

- WHEREAS, The Port relies on financial advisor services to provide specialized skills related to bond issuance, municipal and IFD bond financing, and for other financial services; and
- WHEREAS, The Port's contract for financial advisor services with Public Financial Management (PFM) expired in April of 2014; and
- WHEREAS, The financial advisor will assist Port staff in obtaining financing at the lowest practical interest cost by providing specialized skills not possessed by Port staff including extensive experience in, and an expert understanding of, municipal bond and IFD financing and issuance, bond sizing and structuring, and bond pricing; and
- WHEREAS, A financial advisor will also help Port staff to formulate financing strategies and plans intended to meet the Port's objective of funding its ten year capital plan in a cost effective manner, will assist in modeling financial impacts and will provide other financial advisory services as may be required by the Port from time to time; and
- WHEREAS, On January 30, 2014, the Controller's Office of Public Finance created a list of consultants with demonstrated experience in municipal financial advisory services that are prequalified to enter contract negotiations with the City; now, therefore, be it
- RESOLVED, That the Port Commission hereby authorizes Port staff to issue an informal bid from the Controller's Office prequalified list of municipal financial advisory services to perform the scope of services as generally described in the attached staff report.

***I hereby certify the foregoing resolution was adopted by the Port Commission at its meeting of November 18, 2014.***

---

Secretary



Attachment:  
Municipal Financial Advisory Services Prequalified Consultant Pool

<b>Firm</b>	<b>LBE Status</b>
ACACIA Financial Group	Non-LBE
Backstrom McCarley Berry & Co	LBE-MBE
Columbia Capital Management	Non-LBE
CSG Advisors	Non-LBE
Fieldman Rolapp	Non-LBE
First Southwest Company	Non-LBE
Kitahata & Co	LBE-MBE
KNN Public Finance	Non-LBE
Montague DeRose	Non-LBE
Public Financial Management	Non-LBE
Public Resources Advisory Group	Non-LBE
Ross Financial	LBE-OBE
Sperry Capital	Non-LBE
Stifel Nicolaus & Company	Non-LBE
TKG & Associates	Non-LBE





## MEMORANDUM

November 14, 2014

**TO:** MEMBERS, PORT COMMISSION  
Hon. Leslie Katz, President  
Hon. Willie Adams, Vice President  
Hon. Kimberly Brandon  
Hon. Mel Murphy  
Hon. Doreen Woo Ho

**FROM:** Monique Moyer  
Executive Director

**SUBJECT:** Informational presentation regarding Lease No. L-15875 with BAE Systems San Francisco Ship Repair, Inc., a California corporation, located at Piers 68 and 70 and Seawall Lot 349 near 20th and Illinois Street, for approximately 14.4 acres of land improved with 19 buildings, 17.4 acres of submerged land and Port-owned Equipment, including Drydock #2, the Drydock Eureka and the Shoreside Power System (the "Shipyard"), for a term of 20 years with two (2) five (5) year extension options

**Director's Recommendation:** Informational Only-No Action Required

---

### Executive Summary

Ships have been built and repaired in and around Pier 70 for over 150 years. Today, ship repair remains of vital economic interest to the Port and City as this industry generates hundreds of family wage jobs and helps attract maritime commerce to San Francisco through increased cruise, cargo and military vessel activities. It is a maritime industry in which San Francisco is the leader in Northern California.

The Port owns two floating drydocks which currently are operated by BAE Systems San Francisco Ship Repair, Inc., a California corporation (BAE). *A site map of the Shipyard is provided as Exhibit A to this Memorandum.* BAE provides maintenance, alterations and repairs to cruise ships from their Alaska and Mexico trade routes, trans-Alaska pipeline tankers, foreign and domestic bulk carriers and container ships, military vessels and local bay traffic vessels. BAE's current lease of the Shipyard will expire on December 16, 2017. BAE is requesting a lease renewal to continue operating the

THIS PRINT COVERS CALENDAR ITEM NO. 11A



Shipyards and to be able to recoup its recent and proposed capital investments in the Shipyard. Port staff reviewed the request in cognizance of the Shipyard's importance. Port staff believes that it is impractical to bid the lease opportunity due to (a) the small number of competitive commercial shipyards; (b) the disruption that would occur in the marketplace in light of new competition; (c) BAE's successful rejuvenation of the northern California ship repair market and (d) BAE and the Port's continuing agreement with Princess Cruises (Princess).

Next month, Port staff will ask the Port Commission to consider approving the lease renewal to spur needed investment in the Shipyard so it can continue providing maritime services which are critical to the Port's mission. The purpose of this informational presentation is to inform the Port Commission and the public about this important lease renewal.

## **Background**

The Shipyard is located on Piers 68 and 70 and SWL 349 in the northeast of Pier 70. BAE's predecessors have conducted ship repair operations in the Shipyard since 1987 and BAE took over the lease in 1994 as SF Drydock and changed its name to BAE in 2005. It is a subsidiary of BAE Systems, Inc. who is the U.S. subsidiary of BAE Systems, plc, a global defense, security and aerospace company. In this Shipyard, BAE provides maintenance, alterations and repairs to cruise ships, tankers, foreign and domestic bulk carriers and container ships, military vessels and local bay traffic vessels. These services are critical to the Port's mission to sustain maritime commerce and create jobs among others. BAE currently employs an average of 250 skilled crafts persons year-round, representing ten different trade union locals. Approximately, 65% of the crafts persons are minorities. During peak periods of repair activities, the yard has provided jobs for over 1,000 people.

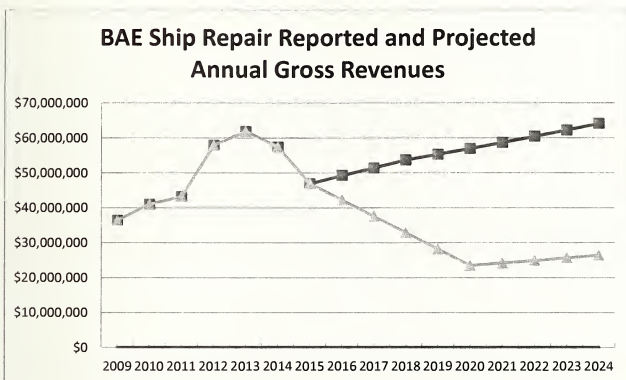
BAE currently leases the Shipyard under a 30-year term lease that will expire on December 16, 2017. It pays the Port 3.3 percent (3.3%) of its gross revenues with a guaranteed annual minimum base rent of \$1,050,000 with no escalation. Last year, BAE had gross annual revenues of over \$61.8 million and paid the Port net rent of \$1.74 million after deduction of \$300,000 in rent credits.

San Francisco's most marketable features in the ship repair business are its floating drydock (which until recently was the largest commercial floating drydock dedicated to ship repair in all the Americas), and its central-coastal geographic location, which makes it an effective location for both northbound and southbound migratory cruise and tanker fleets. The Shipyard has made a successful transition over the past twenty years from being highly dependent on defense work, to being highly competitive in the commercial ship repair markets. When the Bay Area base closures occurred in the early 1990s, Southwest Marine (the original tenant under the Lease) lost nearly 80 percent of its business. Since then, the core business of the shipyard operation has shifted to a mix of tanker, cruise, tug & barge, plus emergency cargo ship repairs, and the military and defense ships' market has rebounded to now account for over 50% of total yard revenues.





Beginning next year, however, BAE and this Shipyard are expected to face two challenges: (a) competition from Vigorous, a new drydock in Portland - currently deemed the country's largest floating drydock; and (b) the aging of the Port's Drydock #2 resulting in diminishing lifting capacity. A drydock is a special marine vessel used to lift other marine vessels as large as a cruise ship out of the water to service or make repairs to their hulls (underbellies). Because of these expected challenges, the current upward trend of gross revenues is expected to be negatively impacted until proposed mitigation measures take effect. The chart below shows revenue trends where the red square-line represents the most likely scenario and the light green triangular-line represents the worst case scenario.



In 2007, the Port, BAE and Princess, the Port's largest cruise customer, entered into agreements whereby the Port, Princess and BAE partnered to fund \$5 million worth of improvements to the Port's floating Drydock #2, including increasing its lifting capacity to 54,000 tons, the addition of six sponsons (wings added to the drydock to increase its stability and lifting capacity), increasing the facility's mooring capacity, and additional dredging to accommodate the sponsons. These modifications allowed the drydock to serve a new market of post-Panamax<sup>1</sup> cruise and tanker vessels where the Shipyard previously had no capability. This joint investment encouraged cruise calls from Princess, its affiliated fleets, and other cruise lines that resulted in increases in shipyard

<sup>1</sup> Post-Panamax is a term currently used to distinguish the newer, larger cruise ship or vessel that is too large to pass through the Panama Canal in Panama. Currently, a post-Panamax ship sailing between the Atlantic and Pacific oceans (or Miami and Los Angeles) will have to navigate about 8,000 miles around Cape Horn at the tip of South America – more than a month sailing. A Panamax ship, which is smaller with narrower width, on the other hand, can pass through the Panama Canal from Miami to Los Angeles, or vice versa, in 15 days. A Post-Panamax vessel can transport up to two-and-a-half times the cargo of Panamax, or a regulation-size, vessel.



business that otherwise would not have occurred. In 2011, BAE performed emergency repair of a Carnival Cruise Line ship that had broken down near San Diego. If the Port's drydock had not been upgraded to allow for repair of post-Panamax cruise and tanker vessels, the only other choice for Carnival Cruise Line would have been to tow its cruise ship to Asia, an extremely lengthy and costly endeavor. With the arrival of Vigorous in Portland that may no longer be the case for other vessels not affiliated with Princess.

To address the two challenges noted, Port staff will be recommending that the lease renewal includes, at a minimum, these two mitigation measures: (1) use a professional third-party periodic evaluation of both drydocks to recommend the required level of maintenance and the appropriate capital improvements for sustaining the capacity of the drydocks; and (2) plan for the Port and BAE to collaborate on the feasibility of replacing Drydock #2 by 2020.

### **Proposed Lease Renewal**

To accommodate the need to sustain and improve the Shipyard operations and competitiveness, Port staff and BAE began discussions approximately a year ago for renewing the current lease. The discussions have led to the development of the proposed Lease No. L-15875.

The proposed lease includes carried-over terms from the current lease that is still binding and will not expire until 2017. The carried-over terms include the Port and BAE's beneficial terms and contractual obligations that are binding through 2017. A summary of the key carried-over terms are as follow:

### ***Current Lease Terms being Carried Over***

- 1. Unused Rent Credits:* The approximately \$1.2 million of rent credits remaining to be claimed by BAE through 2017 is proposed to be included in the new lease. Under the 2007 Princess agreements, Princess agreed to provide a \$3 million loan to BAE to make required improvements to Drydock #2 so that BAE can service Princess's post-Panamax cruise ships at this Shipyard. The improvements were estimated to cost \$5 million. Based on this proposal, the Port then agreed to provide up to \$3 million in rent credits to offset Princess's portion of the \$5 million improvements to Drydock #2, a Port-owned equipment. The rent credits are being taken over a 10-year period, at a maximum of \$300,000 per year, and only from percentage rent in excess of the required minimum annual base rent. BAE has earned the rent credits, but must continue to fulfill its Princess obligation to maintain Drydock #2 at the appropriate lifting capacity through 2017.
- 2. Environmental Oversight and Security Deposit:* A security deposit equal to two months of annual minimum rent will be required by the new lease. Consistent with the Port's Environmental Risk Management Policy and Financial Assurance Requirements of 2007 (Port Commission Resolution No. 07-81), in addition to a security deposit based on rent, BAE must provide an additional \$500,000 deposit based on the potential liabilities associated with the unusual environmental risks



presented by BAE's operations. In order to mitigate and address some of these potential risks, BAE must also comply with several specific environmental provisions that address issues such as energy efficiency, climate change, hazardous materials management, water conservation and water quality. Examples include a water conservation survey together with efficiency upgrades throughout the Shipyard, and the requirement to provide a hazardous materials survey of the two drydocks in conformity with international standards for ship recycling. This security deposit may be provided through an irrevocable standby letter of credit. BAE will also provide a \$10,000 Environmental Oversight Deposit in cash.

3. *Termination Option:* When the current lease was amended in October 2007, the Port provided BAE the option to terminate the lease if its annual gross revenues for any two years (which do not have to be consecutive years) dip below \$25 million beginning January 1, 2014. This provides a six and a quarter-year (6.25-year) no opt-out period after the agreement to let BAE have the option to terminate. BAE wants this option updated and continued under the new lease. Port staff has presented a counter proposal that (1) increases the threshold to the average of two consecutive years gross revenues of less than \$30 million and (2) does not make this option available until after 10 or 12 years into the 20-year term and (3) requires BAE to provide a two-year notice of its intent to terminate. This will give the Port enough time to find a way to continue the Shipyard operations.
4. *Reversion - Port taking back a portion of the Premises for Pier 70 Master Plan purposes:* Port is to take back certain portions of the Premises' land area at certain times or when the portions are needed for the redevelopment of Pier 70. Examples of such reversion options include the extension of 19<sup>th</sup> Street onto the premises or rehabilitating Building 111 to its highest and best use. The reversion will not affect the rent due from BAE.
5. *Equipment Charge for Shoreside Power System:* In June 2012, the Port funded the purchase and installation costs of providing a Shoreside Power System in the Shipyard. The goal of the system is to reduce engine emissions by ships in berth consistent with the City's Clean Air Program. To recoup this Port investment, BAE is required to collect a charge of four cents (\$0.04) per kilowatt of electricity used by ships hooked to the Shoreside Power System and to pass what is collected to the Port. The Port will continue to receive the surcharges.

### ***New Terms Proposed for the Lease Renewal***

1. **Lease Term:** The initial lease term is 20 years commencing in 2015 to allow BAE to recoup its expected investments and expenses towards fulfilling its obligations under the new lease. Tenant will have two five-year extension options for a maximum term expiring in 2045 subject to market rent adjustment or 70% of the average of the total annual rental payments in the prior three lease years.
2. **Early Termination of the Lease:** After 10 (or 12) years into the 20-year term of the proposed new lease, BAE will have the option to give a two-year notice to



terminate the lease if the average of its gross revenues during any two consecutive lease years falls below \$30 million. This is subject to Port's verification of BAE's audited financial statements to confirm the drop in revenues. Port staff will continue to monitor the ship repair market and BAE marketing efforts to ensure that this Shipyard's operations continue to be successful. This effort will start with the requirement that BAE provide the Port with an update to its master plan, which will include BAE's marketing plan based on anticipated market and economic conditions.

3. **Base Rent:** \$1.2 million in 2015 and escalating annually at 3%. Tables 1 and 2 below allow a comparison of the projected gross revenues, base rents, with and without escalations, percentage rent, and net annual rent to the Port under the current lease and the proposed lease. While the net annual rent are projected to be the same under the current lease and proposed lease, the annual base rent under Table 2 is guaranteed; thus, it protects the Port against reduction in percentage rent as a result of a dip in gross revenues below a threshold that produces no percentage rent.

**Table 1 - Reported and Projected Revenues Under the Current Lease**

	1 2015	2 2016	3 2017
<b>I Rent Revenue</b>			
a. Annual Minimum Base Rent:	\$1,050,000	\$1,050,000	\$1,050,000
b. Base Rent Escalation:	0.00%	0.00%	0.00%
c. Annual Minimum Base Rent with Escalation:	\$1,050,000	\$1,050,000	\$1,050,000
d. Projected BAE Annual Gross Revenue:	\$46,900,000	\$49,300,000	\$51,400,000
e. Annual Percentage Rent at 3.3% of Gross Annual Revenue:	\$1,547,700	\$1,626,900	\$1,696,200
f. Total Annual Rent to the Port:	\$1,547,700	\$1,626,900	\$1,696,200
g. Less Rent Credit:	(\$300,000)	(\$300,000)	(\$300,000)
<b>H. Total Net Annual Rent to the Port:</b>	<b>\$1,247,700</b>	<b>\$1,326,900</b>	<b>\$1,396,200</b>

**Table 2 - Reported and Projected Revenues Under the Current Lease**

	1 2015	2 2016	3 2017	4 2018	5 2019
<b>I Rent Revenue</b>					
a. Annual Minimum Base Rent:	\$1,200,000	\$1,200,000	\$1,236,000	\$1,273,080	\$1,311,272
b. Base Rent Escalation:	0.00%	3.00%	3.00%	3.00%	3.00%
c. Annual Minimum Base Rent with Escalation:	<b>\$1,200,000</b>	<b>\$1,236,000</b>	<b>\$1,273,080</b>	<b>\$1,311,272</b>	<b>\$1,350,611</b>
d. Projected BAE Annual Gross Revenue:	\$46,900,000	\$49,300,000	\$51,400,000	\$53,700,000	\$55,300,000
e. Annual Percentage Rent at 3.3% of Gross Annual Revenue:	\$1,547,700	\$1,626,900	\$1,696,200	\$1,772,100	\$1,824,900
f. Total Annual Rent to the Port:	\$1,547,700	\$1,626,900	\$1,696,200	\$1,772,100	\$1,824,900
g. Less Rent Credit:	(\$300,000)	(\$300,000)	(\$300,000)	(\$300,000)	(\$300,000)
<b>H. Total Net Annual Rent to the Port:</b>	<b>\$1,247,700</b>	<b>\$1,326,900</b>	<b>\$1,396,200</b>	<b>\$1,472,100</b>	<b>\$1,524,900</b>

- ❖ Under the proposed rent structure, the Port is guaranteed a higher annual minimum base rent starting with a 14% increase in 2015.





- ❖ There is a three percent (3%) escalation of the minimum base rent every year. (No escalation under the current lease.)
  - ❖ If annual gross revenues drop below \$36 million in a given year, the Port still is guaranteed the minimum base rent as scheduled.
4. **Base Rent Reset:** After 10 years, base rent will be the higher of (A) the then current rent as escalated or (B) 70% of the average of the total annual rental payments in the prior 3 lease years (excluding rent credits).
  5. **Percentage Rent:** This remains unchanged at 3.3% as set in the current Lease. Percentage rent, however, will now be calculated against the total annual gross revenues, including sale proceeds, so that the Port can participate in the upside of the sale or transfer of BAE's interest under the lease or the Shipyard.
  6. **Rent Credit:** BAE will have a right to rent credits equal to 25% - 50% of its investment in Port's properties. It will be capped at \$300,000 per year and can be claimed over 12 to 20 years subject to a maximum of \$4.2 million under the new lease. This break downs to the \$1.2 million under the current lease and the additional \$3 million for proposed new Port's obligations (see 6(B) and 6(C) below) under the proposed lease:
    - A. \$1.2 million of unexpired rent credits associated with Princess required improvements to the Shipyard focusing on Drydock #2, its lifting capacity and sponsors;
    - B. Up to a maximum of \$1 million of new rent credits for the following items, subject to actual completion and documentation:
      - (1) Port is planning to change the location of the 12 megawatts power source for the Shipyard from its current location in Building 102 (not within the Premises) to a vault in the vicinity of Georgia and 19<sup>th</sup> Streets at some point during the Term to accommodate the rehabilitation Building 102 by Orton Development Inc. Port is paying the cost of this relocation and BAE will be limited to a maximum of 5.5 megawatts for the Shoreside Power System and one-megawatt for the rest of Shipyard's operations. Port will be working with BAE to identify, plan and share 50% of BAE's costs of reconnecting to the new power source.
      - (2) Port will require BAE to remove and dispose of (10) PCB-transformers located in the Shipyard within three years into the new lease. Since the Port owned these transformers and BAE has been using them, the cost of removing and disposing the transformers will be split 50%/50% between BAE and the Port with the Port paying its share through rent credits.
      - (3) Port will provide rent credits in the amount of fifty percent (50%) of the cost to demolish and dispose of buildings 38 and 119 that cannot be



rehabilitated because of their poor conditions. Since the Port owned these buildings and BAE has been using them, the cost of demolishing and disposing of them using green demolition techniques will be shared 50%/50% with BAE. The Port will fund its share through rent credits.

- C. Up to a maximum of \$2 million in total rent credits for a minimum of \$8 million in capital improvements to the two drydocks. Port will be asking BAE to engage a marine surveyor to inspect and evaluate each drydock every five (5) years and provide a conditions survey report including, at a minimum, an evaluation of the current physical condition of and remaining useful life of all components of each drydock with recommendations, timing and cost estimates for maintenance and necessary capital investments required to extend the useful life of the drydocks. In addition to the survey, Port will ask BAE to engage an appraiser to review the conclusions of the survey and evaluate the market value of the drydocks. BAE will be responsible for performing all maintenance recommended in the survey and to a time schedule. Since the Port owns the drydocks and BAE has been using them, the cost of making additional improvements to them will be shared 25%/75% with BAE. The Port will fund its share through rent credits in an amount not to exceed \$2 million.

BAE is to receive the above rent credits against percentage rent payments in a maximum amount of \$300,000/year for a maximum of twenty (20) years, and they are subject to carry over to the next year of 100% of the unapplied amount if percentage rent is less than \$300,000 in any applicable year. These rent credits can only be taken after the Princess rent credits are exhausted. After year 20, any unapplied rent credits will expire.

7. **Central Basin Dredging Cost Sharing:** The Port and BAE anticipate that the U.S. Army Corps of Engineers ("Army Corps") will dredge the Central Basin for commercial navigation at a projected cost of \$10 million. The Army Corps will do this at the time it deems appropriate and only after it has received the required grant and entered into a cost-sharing agreement with the Port. It is anticipated that the Army Corps will pay 75% of the cost of the initial dredge (up to \$7.5 million) and Port will be responsible for funding the balance of twenty-five percent (25%) or \$2.5 million. BAE will pay 50% of the Port's payment obligation. Prior to any dredging undertaken by the Army Corps, BAE will be required to establish a letter of credit, in a form acceptable to the Port, or provide cash security equal to \$1.25 million (50% of \$2.5 million). This deposit will be used to reimburse the Port for one half of its actual first dredge costs. Any residual left on the letter of credit after the Port has been reimbursed for one half of its costs and after the first dredging event is complete, will belong to BAE. After the initial dredge, the Port and BAE anticipate that the Army Corps will periodically dredge the Central Basin to maintain the same depths as the initial dredge at no cost to the Port, on a schedule determined by the Army Corps. The lease includes provisions acknowledging that that Port has no obligation to dredge any area within or outside of BAE's leasehold, or to seek or provide funding for such activities; and that the Port is not responsible for any of the Army Corps' actions or failure to act.



8. **Drydock Replacement:** Given the expected wear and tear of any equipment coupled with aging, Port has asked BAE for collaboration on determining the feasibility of replacing Drydock #2, and perhaps, Drydock Eureka, within the first two years of the proposed new lease. At least one of the replacements is expected to be capable of servicing post-Panamax vessels and other preferred marine vessels. Port and BAE will work together to develop a plan that includes the possible financing for the replacement. Any such plan will be subject to mutual agreement of the Port and BAE, environmental review, and Port Commission consideration and approval.
9. **Recovery of City and Port cost of investment in Shoreside Power System:** Port will include a provision in the proposed lease that will enable the increased utilization of the Shoreside Power System above the current utilization level. Currently, not all vessels that berth at the Shipyard can connect to the system because of the different power connection gears the vessels are using. The lease provision will also include a periodic review of the utilization rate and the possibility of increasing the charge per kilowatt hour above the current \$0.04.
10. **Reversion Areas:** The land areas identified as areas A, B, C, D, E, and F along with building(s) on them as shown in the Exhibit B, Reversion Areas Map, will be taken back from BAE for the redevelopment anticipated under the Pier 70 Preferred Master Plan. BAE will continue to have the right to possess and use the areas until the Port issues a required notice for the area to be surrendered to the Port. This will not impact the rent payment to the Port. If the areas are not surrendered on time, BAE will have to pay for the delay at an amount based on the square footage of the area multiplied by the then current Port Commission approved rental rate for a comparable property.

BAE has expressed interest in holding onto Building 111 that is subject to reversion to the Port. It has also expressed an interest in taking possession of Building 6 that abuts its Premises, if the need arises. There are provisions in the lease that indicate the Port will consider giving BAE a right-of-first-offer subject to certain conditions, including BAE meeting the Port's redevelopment plans for the properties or the Port working with a third party that may include a space in the building for BAE.

11. **Community Benefit Package:** In compliance with the Port's Southern Waterfront Community Benefits and Beautification Policy, BAE will be required to: (a) improve and beautify the area of the Shipyard facing the new Crane Cove Park and other perimeter areas; (b) work with City Build or similar local workforce development program to increase local hires; (c) increase utilization of the Shoreside Power System to reduce carbon footprint; (d) share the cost of PCB-transformer removal and disposal; utilize green demolition techniques to maximize recycling in all building and facility demolitions; (f) develop and implement water conservation plan and program; and (g) utilize local businesses and LBEs to the maximum extent feasible.



12. **Expectations regarding proposed developments on Pier 70:** Port staff is proposing good neighbor coordination with BAE and other Pier 70 tenants to make each other aware of the nature of BAE's ship repair operations that do generate noise and lights which can be heard or seen outside of the Shipyard. This coordination also will make BAE aware of the anticipated commercial and residential developments planned for Pier 70, and more specifically to the immediate south of the Shipyard that will bring visitors, residents and customers to Pier 70. In order to address potential issues that might arise, Port will require BAE and the other Pier 70 tenants that they cooperate with each other on developing good neighbor strategies to minimize the potential impacts of noise, sound, and light from BAE's operations during certain periods of the day and week. Such strategies might include BAE's advance community notice of when higher than usual noise, sound, or light are anticipated. Likewise, other Pier 70 tenants will explore mitigation measures to lessen potential impacts on BAE's operations through site and building design, orientation and soundproofing.
13. **Climate Change and Sea Level Rise:** The proposed lease includes provisions and disclosures alerting BAE to the issues of climate change and sea level rise and for it to be prepared to adapt its operations and its planned improvements for the Shipyard accordingly. Also, BAE is required to update its existing master plan for the Shipyard and in doing so, to consider including appropriate adaption measures.
14. **Insurance and other City's Requirements:** BAE is required to comply with all insurance requirements recommended by the City's Risk Manager based on review of the proposed lease. In addition to insurance coverage required under the current lease, the new agreement will require BAE to maintain primary property insurance for Port's Equipment and other properties being insured as well as an umbrella/excess insurance policy with limits of no less than \$5,000,000. Standard terms from the Port's form lease regarding: liability and indemnity, hazardous materials, repair and maintenance, compliance with laws, and City and Port requirements are included in the proposed lease.

### **Staff Analysis**

1. The rent structure is on par or higher than comparable shipyard leases in SF Bay Area and Southern California, particularly, San Diego. Port staff ordered a shipyard rent survey and reviewed the pertinent comparables and their related rental rates. The comparables indicated that base rent and percentage rent proposed for the new lease are competitive and at market rate given the economic profile for the Shipyard.
2. The proposed lease renewal will allow BAE to provide needed capital investment in the Shipyard, particularly, Drydock #2. BAE wants enough time to be able recoup its investments in the Shipyard given that the current lease will expire in 2017.
3. Retaining the Shipyard operations is of vital economic interest to the Port and renewing the lease will spur required investment in the Shipyard which is a critical





facility supporting the Port's cruise terminals and Bay Area maritime traffic. It will also:

- a. Retain/maintain an active shipyard. It will continue support for the Port cruise terminals; provide repair/maintenance service for post-Panamax ships and other vessels, and preserve ship repair jobs.
  - b. Preserve/increase Port revenue: (A) It will increase annual base rent through (i) an increase over the current base rent and (ii) annual escalation; (B) increase upside participation through (i) percentage rent, (ii) subtenanting charges, (iii) sale proceeds participation; and (iv) increase of the surcharge rate and utilization of the Port's Shoreside Power System.
  - c. Spur required investment in Port-owned equipment and buildings: It will institute repair thresholds and time limits; maintain commercially competitive lifting capacities of the drydocks; induce collaboration on drydock replacement and disposal funding.
  - d. Rehabilitate historic resources: It will provide for the repair/maintenance of the existing buildings to meet Interior Secretary's Standards.
  - e. Protect and provide jobs: it will continue to sustain the 250 workers employed year round at the shipyard with peak employment of 800 to 1,000 jobs.
  - f. Help sustain Bay Area maritime businesses: It will reinforce the Port's commitment to maritime uses such as cruise and cargo which are a part of the Port's top mission. Uses like an active ship repair are essential to this mission. The Port wants to assure its partners like Princess that we have the infrastructure to support cruise ships and other vessels.
4. The proposed lease includes ample provisions addressing potential exposure of Port to environmental risks. There are also lease provisions to minimize risks to the Port from future developments that might impact the Shipyard and, vice versa, the Shipyard impacting other Pier 70 tenants.

### **Tenant in Good Standing**

Because BAE assumed the current lease in 1994, its track record as a Port tenant spans approximately 20 years during which it has been a tenant in good standing. It has successfully increased this Shipyard's productivity that resulted in increased maritime commerce activities in San Francisco, increased high-wage jobs, increased gross revenues, and increased Port rental revenues. It continues to abide by all terms and conditions of its lease; pay its rent on time, and diversify the Shipyard operations; all leading to positive economic impact on the Port and the City.

Port staff is aware of discrimination complaints that have been filed in 2009/2010 against BAE with the San Francisco Superior Court and the U.S. Equal Employment



Opportunity Commission (EEOC), a federal law enforcement agency that enforces laws against workplace discrimination. Port staff takes seriously any discrimination complaint against any Port tenant. In response to the Port's inquiries regarding the allegations and BAE's covenant to comply with City anti-discrimination policies, Port staff has received from BAE the attached BAE's *November 7, 2014 letter, Exhibit C1 to this Memorandum*, and Exhibit C2, a Summary of BAE's Non-discrimination Policy. In the interim, Port staff will continue to monitor the status of the yet-to-be resolved complaints.

## **Community Outreach**

Port staff and BAE representatives are planning to present the proposed Lease renewal to the Central Waterfront Advisory Committee ("CWAG") on November 12, 2014 and Maritime Commerce Advisory Committee ("MCAC") on November 20, 2014. Port staff will encourage BAE to undertake periodic outreach towards realizing the objectives of its community benefit package which includes providing more opportunities for LBE participation in its operations and hiring opportunities for residents.

## **Timeline/Next Steps**

Pending direction and input from the Port Commission, approval of the proposed lease will be presented for Port Commission consideration on December 16, 2014. In the interim, Port staff and BAE representatives will present the proposed new lease to CWAG and MCAC for comments. Port Commission approval of the proposed lease will allow BAE to continue addressing the challenges facing the Shipyard and develop effective strategies for sustaining or surpassing the current Shipyard's operational performance. This will also allow BAE to compete for, and lock in, contracts spanning beyond 2017, the year the current lease will expire.

## **Environmental Review**

Port Commission approval of the lease renewal will be subject to CEQA review and clearance for the proposed demolition of Buildings 38 and 119 and the removal of 10 transformers and one breaker switch, each containing PCB oil. All other improvements that BAE would undertake in the Shipyard are subject to strict compliance with all applicable environmental laws and regulations including Port building code requirements.

## **Conclusion**

Given the critical role the Shipyard's operations play in the Port's mission to maintain maritime commerce in San Francisco, the Port Commission's willingness to consider approving the proposed new lease will send the maritime industry a positive message that the Port of San Francisco continues to support and welcome its maritime commercial partners. The proposed lease is cognizant of the technical and economic profile of the Shipyard, its potential, and the need to work with BAE, a long-time partner/tenant that is in good standing with the Port.



Prepared by: Gerry Roybal, Maritime Marketing Manager  
Ricky Tijani, Project Manager, Planning & Development

Through: Jonathan Stern, Assistant Deputy Director  
Waterfront Development

For: Peter Dailey, Deputy Director, Maritime  
Byron Rhett, Deputy Director, Planning and Development

Exhibits:

- Exhibit A - Site Map
- Exhibit B - Reversion Areas Map
- Exhibit C1 - BAE's November 7, 2014 Letter
- Exhibit C2 - Summary of BAE's Non-Discrimination Policy



CENTRAL BASIN

PIER 68

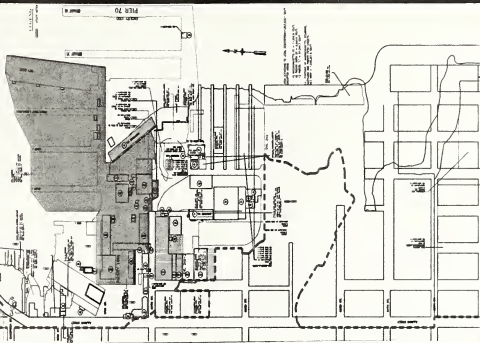
SAN FRANCISCO BAY

LEASE PREMISES  
AREA  
DETAIL MAP

TOTAL CURRENT PREMISES - LAND & PERS OTHER THAN ENCUMBRANCES 626,653.09 SQ. FT. / 14.4 ACRES  
 SUBMERGED LANDS 794,575.95 SQ. FT. / 17.4 ACRES  
 = Leasehold Land & Water 506,723.49 - sq. ft. LAND 11.63 - ACRES of LAND  
 = Reversion Area 122,329.60 - sq. ft. 2.81 - ACRES of LAND

GENERAL AREA  
LOCATION MAP

TO AT&amp;T PARK / McCOVEY COVE



LEASE NO.

**L-15875**

**SAN FRANCISCO PORT COMMISSION**  
 PORT OF SAN FRANCISCO  
 DEPARTMENT OF ENGINEERING

TENANT

**BAE SYSTEMS**  
**SAN FRANCISCO SHIP REPAIR**  
**SWL 349 & PIER 68**

PREPARED BY: ECC, AMN

DRAWN BY: ECC, AMN

DATE: October 5, 2014

CONTRACT NO.

SCALE: NONE

INFORMATION ITEM 11-A

**EXHIBIT A**

SHEET NO. 1

OF 1 SHEETS

C:\06 PROPERTY FILES\Lease Maps\COMBTD-SWL349-PIER 68.dwg





## -5-

-5-



BAE Systems  
San Francisco Ship Repair  
P.O. Box 7644  
San Francisco, CA 94120-7644  
Ph 415-861-7447  
Fax 415-558-8466

**BAE SYSTEMS**

Mr. Peter Dailey  
Deputy Director, Maritime  
Port of San Francisco  
Pier 1  
San Francisco, California 94111

November 7, 2014  
Serial# 032-14

Re: BAE Systems San Francisco Ship Repair Inc.  
Compliance with Covenant Not to Discriminate

Dear Mr. Dailey:

Pursuant to the terms of the Lease agreement between BAE Systems San Francisco Ship Repair Inc. ("BAE Systems") and the Port of San Francisco ("POSF") dated December 2, 1987, as amended, BAE System confirms that it is compliant with its obligations arising from the City's Non-Discrimination laws.

As of the date of this letter, BAE Systems has not been formally notified of any administrative claims that have been filed in 2014 with any governmental agency (e.g. EEOC, DFEH) alleging discriminatory practices or behavior. BAE Systems has one administrative claim pending that was filed with the EEOC in May 2013 and is still pending with the EEOC, no final decision has been issued.

In 2009 and 2010, several BAE Systems employees filed complaints in San Francisco Superior Court alleging various causes of action, including discrimination allegations, against BAE Systems. BAE Systems has denied these allegations. It is important to recognize that none of these complaints have resulted in a final decision by the Court that BAE Systems has discriminated under the law. One of these cases went to trial, but the Court ultimately ordered a new trial. The case was subsequently resolved before the re-trial. Some of these complaints were summarily dismissed by the Court, one voluntarily withdrew the complaint and the others, except for one, have been resolved. The one remaining case is scheduled for trial in early 2015.

BAE Systems has an extremely diverse workforce which is largely staffed by numerous local union halls. The company promulgates strict policies prohibiting discrimination, harassment and retaliation and provides periodic training to employees on these matters. We have an open door policy that encourages employees to approach anyone in management with their concerns. Our union represented employees may also raise any concerns they have with their respective union representatives. Further, BAE Systems prohibits graffiti of any kind and has protocols in place to ensure that any graffiti is removed immediately whenever it is discovered on the premises.

Please do not hesitate to contact me if you have any questions.

Very truly yours,



Bill Dunbar  
General Manager

SAN FRANCISCO PORT COMMISSION  
November 18, 2014: ITEM 11-A

— EXHIBIT C-1 —



## Exhibit C2

### A Summary of BAE's Non-discrimination Policy

BAE Systems, Inc. ("BAE Inc"), the parent company of BAE Systems San Francisco Ship Repair, Inc. ("BAE"), maintains a management policy on (A) Equal Employment Opportunity and Affirmative Action, and (B) Prohibition Against Harassment and Sexual Harassment. A summary of the policy is as follows:

#### **A. Equal Employment Opportunity and Affirmative Action**

BAE Inc. promulgated a policy entitled **Equal Employment Opportunity and Affirmative Action**, referenced as **Number 101, Revision Eight**, and effective as of **August 11, 2014**. It states that it is its policy that all of its businesses, including BAE, be equal opportunity employers and comply with all applicable federal, state and local anti-discrimination laws, orders, directives and regulations. AS U.S. Government federal contractors, it and BAE are required to maintain Affirmative Action Programs ("AAP") in compliance with Executive Order 11246.

Details about BAE Inc. and BAE's Equal Employment Opportunity and Affirmative Action can be found on its websites at [www.baesystems.com/jobs](http://www.baesystems.com/jobs)

#### **B. Prohibition Against Harassment and Sexual Harassment.**

BAE Inc. promulgated a policy entitled **Prohibition Against Harassment and Sexual Harassment**, referenced as **Number 102, Revision Five**, and effective as of **September 1, 2011**. It states that it is its policy that all of its businesses, including BAE, create a respectful, courteous work environment that is free from physical, psychological, visual, and verbal harassment. It listed prohibited conducts and a process for the policy implementation.

Details about BAE Inc. and BAE's Prohibition Against Harassment and Sexual Harassment can be found on its Corporate Policy websites at [www.baesystems.com](http://www.baesystems.com).





## MEMORANDUM

November 14, 2014

**TO:** MEMBERS, PORT COMMISSION  
Hon. Leslie Katz, President  
Hon. Willie Adams, Vice President  
Hon. Kimberly Brandon  
Hon. Mel Murphy  
Hon. Doreen Woo Ho

**FROM:** Monique Moyer *Monique Moyer*  
Executive Director

**SUBJECT:** Request approval of an Amended and Restated Exclusive Negotiation Agreement between the Port of San Francisco and Seawall Lot 337 Associates, LLC for the lease and development of Seawall Lot 337 and Pier 48 bounded by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay and adjacent to AT&T Park

**DIRECTOR'S RECOMMENDATION:** Approve Attached Resolution

### **EXECUTIVE SUMMARY**

Since executing an Exclusive Negotiation Agreement ("ENA") in September 2010 for the development of Seawall Lot (SWL) 337 and the adjacent Pier 48 (together the "Site", shown on Appendix A), Seawall Lot 337 Associates, LLC ("Developer"), Port and City staff have negotiated a non-binding term sheet (the "Term Sheet") with proposed financial terms for the lease and development of the Site (the "Project"). The Port Commission and Board of Supervisors each unanimously endorsed the Term Sheet in the spring of 2013.

As described in the Term Sheet, the Port and Developer have proposed a mixed-use neighborhood at SWL 337 with appropriate height and density to create a vibrant, walkable neighborhood with new parks and public spaces. In June 2014, the voters of San Francisco passed Proposition B whereby development of Port property exceeding existing height limits now requires voter approval in addition to the typical regulatory approvals. In light of Proposition B, the Developer is re-examining the proposed heights and density with the expectation that the Project will be presented to the voters on a

**THIS PRINT COVERS CALENDAR ITEM NO. 12A**





future ballot. Today the Port Commission is being asked to approve an Amended and Restated ENA affording Developer an appropriate amount of additional time to accomplish the additional steps required as a result of Proposition B.

## **BACKGROUND**

In October 2007, the San Francisco Port Commission initiated a two-phase developer solicitation process for SWL 337, a 16 acre Port waterfront site located along the south side of China Basin Channel, generally bounded by Third and Mission Rock Streets, and Terry Francois Boulevard; and Pier 48, a 212,500 square foot warehouse complex adjacent to SWL 337. Currently SWL 337 is used as a surface parking lot under lease to a San Francisco Giants affiliate. Pier 48 uses are primarily ballpark overflow parking in the northern shed and storage for the Department of Elections in the southern shed. All of these current uses are on short term leases in anticipation of termination to allow for development.

On May 12, 2009, the Port Commission awarded the SWL 337 development opportunity to Developer and authorized exclusive negotiations for a mixed used development project at SWL 337 and Pier 48. Port and the Developer negotiated an Exclusive Negotiation Agreement ("ENA") which outlines a two phase approach. Phase 1 allocated 24 – 30 months for the parties to reach agreement on a project plan and financial terms culminating in recommendation for a term sheet endorsement by the Port Commission and the Board of Supervisors. Phase 2 allocated 3 years to complete the entitlement and permitting process for the project.

## **1st AMENDMENT TO EXCLUSIVE NEGOTIATION AGREEMENT**

On October 9, 2012, the Port Commission approved a First Amendment to the ENA extending Phase 1 to provide additional time to negotiate and incorporate financing tools into the Project Term Sheet.

## **2<sup>nd</sup> AMENDMENT TO EXCLUSIVE NEGOTIATION AGREEMENT**

On March 12, 2013, the Port Commission approved a Second Amendment to the ENA to:

1. Extend Phase 1 to provide additional time for Developer to obtain endorsement of the Term Sheet by the Board of Supervisors. DONE
2. Require the parties to agree on a Phase 2 ENA budget and for Developer to provide quarterly and annual budget reports. DONE
3. Require Developer to produce evidence of Developer's financial and professional capacity to support any proposed increase in the predevelopment budget. DONE
4. Provide for Port Commission review and approval of the qualifications of any person or entity that Developer proposes to admit as a new member, if the new member will be obligated for any material portion of Developer funds, skill, or expertise. DONE



5. Expand the Site to include P20<sup>1</sup> and the approximately 0.58-acre marginal wharf between Pier 48 and Pier 50. DONE
6. Refine the conditions under which the Site could be identified as an alternative location for a proposed arena. DONE

## **AMENDED AND RESTATED EXCLUSIVE NEGOTIATION AGREEMENT**

In June 2014, the voters of San Francisco passed Proposition B whereby development of Port property exceeding existing height limits now requires voter approval in addition to the typical regulatory approvals. The State Lands Commission has filed a lawsuit challenging its validity, which is pending. As described in the Term Sheet, the Port and Developer have proposed a mixed-use neighborhood at SWL 337 with appropriate height and density to create a vibrant, walkable neighborhood with new parks and public spaces. In light of Proposition B, the Developer is re-examining the proposed heights and density with the expectation that the Project would be presented to the voters for approval on a future ballot. This unanticipated requirement necessitates an extension of the ENA along with other proposed amendments as described below:

### **Proposed Amendments**

1. Acknowledge Developer's timely satisfaction of all Performance Benchmarks for Phase 1.
2. Revise Phase 2 Performance Benchmarks in accordance with the expected approval steps (see also Appendix B).
3. Acknowledge Phase 2 will expire on the earlier of December 31, 2019, or the last day of the 12<sup>th</sup> full month after Developer has obtained voter approval of the proposed height limit subject to regulatory force majeure and Developer extension rights.
4. Revise definition of Outside Transaction Costs to include project management services of two full time City/Port staff persons.
5. Adjust Port's right to review evidence of Developer's financial capacity in relation to achievement of the revised milestone schedule.

With the passage of time, certain provisions of the ENA, as amended, have expired or have been superseded. For clarity and effective management of the ENA going forward, staff has prepared a fully Amended and Restated ENA with revised Exhibit C showing adjusted Phase 2 performance benchmarks, which is attached to the memorandum as Appendix B.

---

<sup>1</sup> Parcel P20 is adjacent to the southerly boundary of SWL 337 and is a component of the former Redevelopment Agency's open space plan for Mission Bay. Adding Parcel P20 to the Site is subject to required authorizations by the State Lands Commission and Legislature (with respect to its inclusion in SB 815 as part of SWL 337), the Successor Agency to the San Francisco Redevelopment Agency and its Oversight Board, and the Board of Supervisors and other city agencies.



## **RECOMMENDATION**

Port staff recommends the Port Commission approve the attached resolution approving the Amended and Restated Exclusive Negotiation Agreement as described in this staff report and attached hereto.

Prepared by: Phil Williamson, Port Senior Project Manager

Jonathan Stern, Port Assistant Deputy Director,  
Waterfront Development

Michael Martin, Project Director  
Office of Economic and Workforce Development

For: Byron Rhett, Port Deputy Director  
Planning & Development

Ken Rich, Director of Waterfront Development  
Office of Economic & Workforce Development

Appendix A - The Site

Appendix B – Performance Benchmarks



**PORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO**

**RESOLUTION NO. 14-60**

- WHEREAS, Charter Section B3.581 empowers the Port Commission with the authority and duty to use, conduct, operate, maintain, manage, regulate and control the lands within Port jurisdiction; and
- WHEREAS, The Port owns approximately 16 acres at Seawall Lot 337 ("SWL 337") and Pier 48, bounded generally by China Basin, the San Francisco Bay, Mission Rock Street and Third Street, including China Basin Park and a portion of the existing Terry Francois, Jr. Blvd. (the "Site"); and
- WHEREAS, The Port Commission previously awarded to Seawall Lot 337 Associates, LLC ("Developer") the opportunity to negotiate for the development of SWL 337 and Pier 48 as a mixed-use development project (the "Project"), authorized Port staff to negotiate an Exclusive Negotiation Agreement (the "ENA") for development of the Site, and authorized the Executive Director or her designee to execute the ENA and amendments all as set forth in Resolution Nos. 09-26, 10-32, 12-77, and 13-10 which are incorporated by this reference; and
- WHEREAS, The Port Commission (by Reso. No. 13-10) and the Board of Supervisors (by Reso. No. 13-0286) have endorsed the Term Sheet negotiated by Developer and Port staff, which sets forth the essential terms upon which the Port and Developer will negotiate in good faith to reach agreement on the final development agreement, lease, and related documents ("Transaction Documents") and is incorporated by this reference; now, therefore be it
- RESOLVED, That the Port Commission authorizes the Executive Director to enter into the Amended and Restated ENA with the amended terms as described in the staff report accompanying this resolution and incorporated by this reference, to: (1) acknowledge Developer's timely satisfaction of all Performance Benchmarks for Phase 1; (2) revise Phase 2 Performance Benchmarks as shown in Appendix B to the staff report; (3) define Phase 2 expiration as the earlier of December 31, 2019, or the last day of the 12<sup>th</sup> full month after Developer has obtained approval of the proposed height limit subject to regulatory force majeure and Developer extensions; (4) revise the definition of Outside Transaction Costs to include project management services of two full time City/Port staff persons; and (5) refine the Port's right to review evidence of Developer's financial capacity in relation to the achievement of the revised milestone schedule; and the Port Commission further authorizes the Executive Director to enter into any subsequent modifications (including the exhibits or related documents) to the Amended and Restated ENA that the Executive Director, in





consultation with the City Attorney, determines are in the best interests of the Port and otherwise do not materially increase the obligations or liabilities of the Port or materially decrease the public benefits accruing to the Port or the City, and are necessary or advisable to implement the intent of this resolution, such determination to be conclusively evidenced by the execution and delivery by the Executive Director of the Amended and Restated ENA; and be it further

RESOLVED, That the Port Commission reserves the right, if exclusive negotiations with Developer are unsuccessful and do not lead to approval of Transaction Documents, to undertake other efforts such as issuing a new request for proposals, at the Port Commission's sole discretion; and be it further

RESOLVED, That the Port Commission will not take any discretionary actions committing the Port to implement the Project unless and until the Port Commission and the Planning Commission have reviewed and considered environmental documentation prepared in compliance with the California Environmental Quality Act for the Project and the Project has been approved.

***I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of November 18, 2014.***

---

Secretary



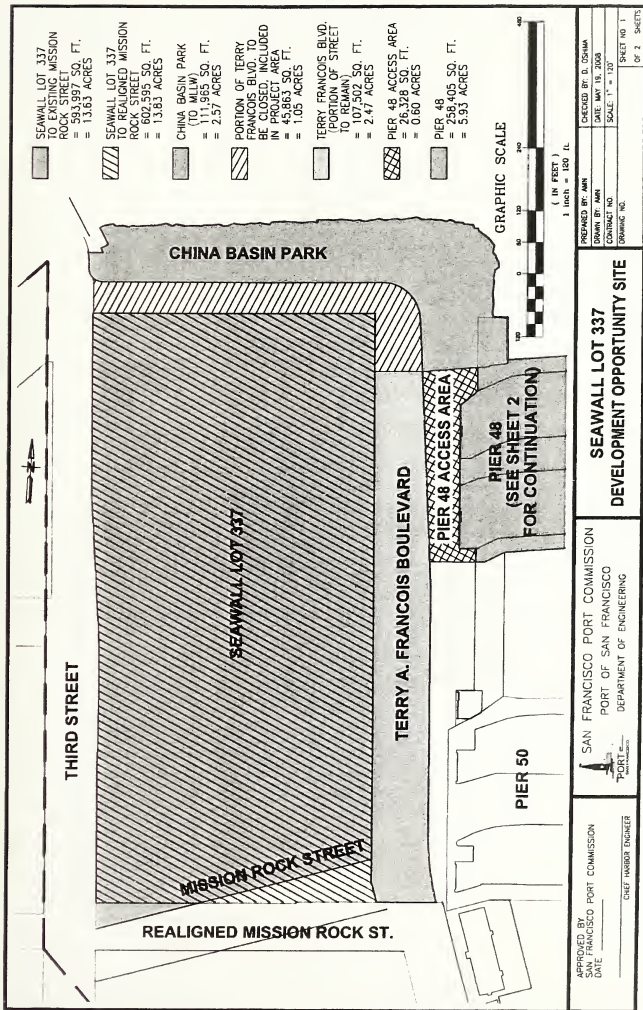
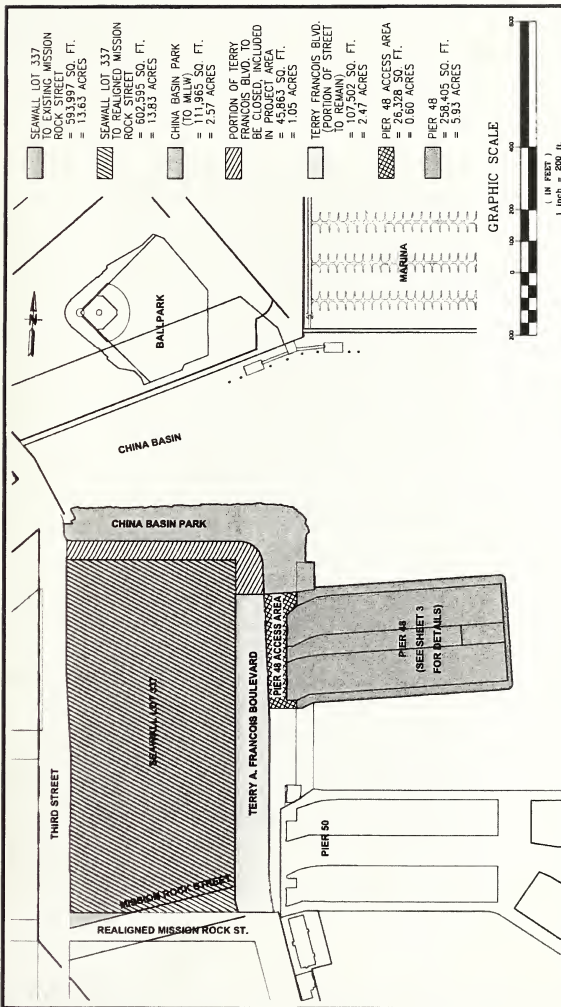


EXHIBIT A





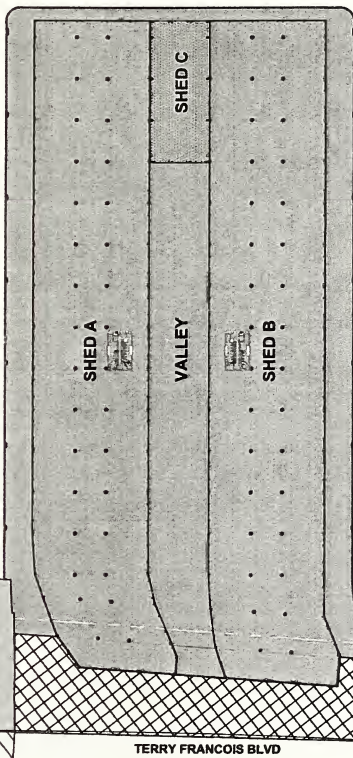
APPROVED BY SAN FRANCISCO PORT COMMISSION DATE _____ CHIEF HARBOR ENGINEER	SAN FRANCISCO PORT COMMISSION PORT OF SAN FRANCISCO DEPARTMENT OF ENGINEERING	<b>SEAWALL LOT 337</b> <b>DEVELOPMENT OPPORTUNITY SITE</b>	
		PREPARED BY: MAN DRAWN BY: MAN CONTRACT NO. DRAWING NO.	CHECKED BY: D. OSHIMA DATE: MAY 19, 2008 SCALE: 1" = 200' SHEET NO. 2 OF 2 SHEETS

C:\307\_SFP\307\307\307\307\_307\_307.dwg



CHINA BASIN

SAN FRANCISCO BAY



TERRY FRANCOIS BLVD

**PIER 48**

SHED A = 84,649 Sq Ft  
 SHED B = 86,954 Sq Ft  
 SHED C = 9,555 Sq Ft  
 VALLEY = 31,313 Sq Ft

APPROVED BY  
 SAN FRANCISCO PORT COMMISSION  
 DATE

SAN FRANCISCO PORT COMMISSION  
 PORT OF SAN FRANCISCO  
 DEPARTMENT OF ENGINEERING

SEAWALL LOT 337  
 DEVELOPMENT OPPORTUNITY SITE  
 PIER 48 DETAILS

DRAWN BY: ECC  
 CHECKED BY: D. CHINIA  
 PLATE CODE NO.

DATE: MAY 19, 2008

SCALE: 1" = 100'

SHEET NO. 3

1480-00

OF 3 SHEETS

S:\P\PIER 48\PIER 48 DETAILS\PIER 48 DETAILS.DWG

EXHIBIT A





## APPENDIX B

### PERFORMANCE BENCHMARKS

INITIAL PERFORMANCE BENCHMARKS Phase 1		TIME FOR PERFORMANCE
1.	<u>Developer Formation Documents</u> . Developer must submit a copy of its operating agreement.	Complete
2.	<u>PR Program</u> . Developer must submit its proposed PR Program.	Complete
3.	<u>Revised Proposal Concept</u> : Developer must submit its preliminary massing and land use concept and proposed phasing for the Revised Proposal.	Complete
4.	<u>Revised Proposal</u> : Developer must submit its Revised Proposal.	Complete
5.	<u>Community Outreach Program</u> : Developer must submit its proposed Community Outreach Program.	Complete
6.	<u>Public Trust Consistency Proposal</u> : Developer must submit its proposed Public Trust Consistency Proposal for Pier 48 and other portions of the Site that will remain subject to the public trust, including the process for completion of the Planning Study for SWL 337.	Complete
7.	<u>Regulatory Approval Strategy</u> : Developer must submit its proposed Regulatory Approval Strategy.	Complete
8.	<u>Term Sheet</u> . Developer must submit its proposed Term Sheet for the Revised Proposal.	Complete
9.	Additional Due Diligence: The Port Commission must confirm Developer's financial capacity to entitle and complete horizontal construction of the Project.	Complete
10.	<u>Port Endorsement</u> : The Port Commission must adopt a resolution endorsing the Revised Proposal and Term Sheet.	Complete
11.	<u>Fiscal Feasibility Analysis</u> : If the Term Sheet includes more than \$1 million in rent credits or any other form of public financing other than tax increment financing, such as Mello-Roos financing, Developer must provide for the Port's review and approval a draft report to the Board meeting the requirements of Administrative Code Chapter 29.	Complete
12.	<u>Board Endorsement</u> : The Board must adopt a resolution endorsing the Term Sheet.	Complete



INITIAL PERFORMANCE BENCHMARKS Phase 1		TIME FOR PERFORMANCE
13.	<u>Fiscal Feasibility Determination</u> : If required, Developer must obtain a Board finding that the Project is financial feasible under San Francisco Administrative Code Chapter 29.	Complete

FINAL PERFORMANCE BENCHMARKS Phase 2		TIME FOR PERFORMANCE
14.	<u>Phase 2 Transaction Costs Budget</u> : Developer and the Port must reach agreement on the Transaction Costs Budget for Phase 2.	Complete
15.	<u>Environmental Review</u> : Developer must file the environmental review application for the Project.	Complete
16.	<u>Environmental Review</u> : The initial study must be published.	Complete
17.	<u>Final EIR and Height Limit Adoption</u>	12/16/18
18.	<u>Rezoning</u>	12 months from Height Limit Adoption
19.	<u>Transaction Documents</u> : Developer and Port staff must reach final agreement on the form of the LDDA, Lease, and all related Transaction Documents.	12 months from Height Limit Adoption
20.	<u>Public Trust Consistency Determination/Port Approval of Transaction Documents</u> : Developer must obtain the Port Commission's approval of the LDDA and the other Transaction Documents, based on its Public Trust Consistency Determination.	12 months from Height Limit Adoption
21.	<u>Board Approval of Lease</u> : Developer must obtain the Board's approval of the Lease.	12 months from Height Limit Adoption
22.	<u>Regulatory Approvals</u> : Developer must obtain any other non-Port Regulatory Approvals required to entitle the first development phase of the Project.	12 months from Height Limit Adoption
23.	<u>Due Diligence Investigation</u> : Developer must complete its due diligence investigation of the Site, including surveys, title, field measurements, structural analyses and inspections, samples, borings, sediment analyses, historic building surveys and documentation, hazardous materials surveys, utility availability, and any other investigations as required by good engineering practices and by Regulatory Agencies.	12 months from Height Limit Adoption





## MEMORANDUM

November 14, 2014

**TO:** MEMBERS, PORT COMMISSION  
Hon. Leslie Katz, President  
Hon. Willie Adams, Vice President  
Hon. Kimberly Brandon  
Hon. Mel Murphy  
Hon. Doreen Woo Ho

**FROM:** Monique Moyer *Monique Moyer*  
Executive Director

**SUBJECT:** Informational Presentation on a Lease No. L-15892 between the Port of San Francisco and TMG Pier 38 Partners, a California Limited Liability company for premise located at Pier 38 in the Central Waterfront on The Embarcadero at Delancey Street with an initial term of 25 years plus two (2) five (5) year extension options granted at the sole discretion of the Port

**DIRECTOR'S RECOMMENDATION:** No Action. Informational Only

---

### Summary

Following a Pier 38 developer solicitation process that resulted in the selection of TMG Pier 38 Partners, LLC (TMG), Port staff and TMG have developed a proposed site plan and business terms for the Pier 38 bulkhead project. This presentation is to provide an overview of the proposed project and will allow the Port Commission to provide input and direction to staff. Port staff intend to bring back this proposal, subject to regulatory approval, to the Commission when the lease is fully negotiated and documented.

### Background

On September 25, 2012, the Port Commission authorized staff to issue a Request for Proposals (RFP) with the objective to restore and re-tenant the Pier 38 bulkhead, bring it back into economic use and provide on-going revenue to the Port.

THIS PRINT COVERS CALENDAR ITEM NO. 12B



The Port issued the RFP on November 16, 2012.<sup>1</sup> In March 2013, the Port received proposals from two developer teams: 1) San Francisco Waterfront Partners, LLC and 2) TMG. The development teams presented their qualifications and proposals to the Port Commission on June 11 and August 13, 2013.

On December 12, 2013, the Port Commission awarded the Pier 38 bulkhead rehabilitation opportunity to TMG and directed Port staff to negotiate a lease on terms and conditions that reflect the Port's goals, as described in the RFP.<sup>2</sup>

This project is limited only to the bulkhead and a portion of the shed as described in the development solicitation and does not extend to the total rehabilitation of Pier 38.

Pier 38 consists of two structures. The Pier 38 bulkhead structure is a two-story wood framed concrete building which resides along the Embarcadero. It was built in 1936 and consists of approximately 13,000 square feet previously used as office and retail space. The pier shed is a single story, high ceiling warehouse building consisting of approximately 97,000 square feet. A portion of the pier shed which includes a mezzanine area had been used for office use consisting of approximately 10,000 square feet. The RFP defined the bulkhead rehabilitation project as consisting of the bulkhead and the office portion of the pier shed (also referred to below as the west pier shed).

The Port sought a developer that has demonstrated the ability to renovate, manage and operate a comparable mixed-use project that includes the existing bulkhead space and that can upgrade the life safety and other code improvements needed for occupancy. The improvements consist of base building core and shell improvements and tenant improvements, including repairs to the building façade, roof and windows, mechanical systems, seismic bracing, interior tenant improvements, Americans with Disabilities Act (ADA) upgrades such as an elevator, accessible bathrooms, and paths of travel and energy efficiency upgrades.

The Port selected TMG which is a joint venture partnership with TMG Partners and Premier Structures, a certified Local Business Enterprise (LBE). TMG will make necessary repairs to the floating dock and gangway, enhance public access improvements on the north apron, and repairs to the substructure, including piles, beam and girders beneath the bulkhead and, if necessary, a portion beneath the west pier shed.

TMG proposes to invest approximately \$7,200,000 at a scale commensurate with the surrounding areas and primarily limited to the bulkhead. The developer has calculated a use program that will not trigger a seismic upgrade of the entire pier. Undertaking such

---

<sup>1</sup> <http://www.sf-port.org/modules/showdocument.aspx?documentid=4934>

<sup>2</sup> <http://sfport.com/modules/showdocument.aspx?documentid=7078>





seismic upgrade would render the project financially infeasible. However, an inherent concern to the Port and TMG is the on-going condition of the substructure during the lease term.

## **Proposed Uses**

### **Parcel A--Bulkhead**

As shown on Exhibit A, the bulkhead will continue to be used primarily for office space on the first and second floors for a total of approximately 11,000 square feet. The northern portion of the first floor bulkhead will be used as a full service restaurant consisting of approximately 2,200 square feet.

The office space will be targeted to creative- and technology-oriented users. TMG believes that they can attract such users because of Pier 38's unparalleled waterfront location, the unique character of the bulkhead and the attractiveness to an open floor plan with minimal interior divisions.

The 2,200 square foot space is targeted for restaurant use which would activate the northern portion of the pier apron and the adjacent Brannan Street Wharf. This dining area would be a distinctive use along the Embarcadero and the waterfront and would represent a public amenity.

In the area of the main Pier 38 arch, the center drive aisle will remain to serve both vehicular and pedestrian access.

### **Parcel B--West Pier Shed**

This portion of the shed will contain a mixture of uses. On the south side of the center drive aisle, there will be approximately 1,000 square feet of office space and an office lobby. Restrooms for office and restaurant employees and restaurant patrons will be located in this area. The north side of the first floor will consist of approximately 1,300 square feet of restaurant space.

The second floor of the pier shed area will be used for approximately 9,000 square feet of office space.

### **Parcel C--Pier Shed**

Approximately 40 parking spaces will be used solely by tenants of the refurbished office space. The parking amenity will allow TMG to command higher rental rates. There will be no public parking.

A portion of the pier shed, or approximately 45,000 square feet, will be used intermittently (i.e., 1 to 2 events per month) for temporary public assembly/special events. Events will be staged on an "as-is" basis. Occupancy will be determined through



the permitting process, but it is likely that the maximum number of users would be less than 500 per event. Events will be permitted individually by the Port through a "Temporary Public Assembly Permit". Events will likely include corporate events, private parties, trade shows and other private invitation only events.

#### Parcel D—Public Access

A portion of the north apron will be refurbished to allow approximately 6,500 square feet of new public access from the Embarcadero to the portion that TMG will occupy.

TMG proposes to continue use of the gangway and floating dock on the north side of Pier 38. These will need to be repaired and made usable in order for water taxi operation. Short term guest berthing will also be permitted. The refurbished gangway and floating dock will also be used as public access areas during the daytime.

#### **Proposed Business Terms**

##### Term

The initial lease term is 25 years, unless otherwise extended as noted below.

##### Port Rent

Base rent starts at \$25,000 a month (\$300,000 a year), escalated every five years based on a Consumer Price Index, but not less than 10% or more than 20% increase every five years. The lease provides for a 12 month construction period in which no rent is paid. The lease also provides a 12 month extension of the rent abatement period at the sole discretion of the Port Commission.

The rent is the greater amount of either the base rent or 15% of effective gross income (i.e., gross income less Common Area Maintenance (CAM) reimbursements to TMG by subtenants and other agreed-upon security deposits and tenant improvement reimbursements).

##### Port Participation on Sale

The lease provides for a 15% of net proceeds to the Port from sale or transfer of the lease above a 12% return on invested equity. The Port does not participate in any refinancing proceeds.

Port staff believes that this a reasonable change to the Port standard interim lease boilerplate and should not serve as a precedent to other lease negotiations because TMG will accept the Port's right of early termination in Year 10 in the event that, as noted below, the Port Commission does select TMG as the developer for a full development of Pier 38. The standard lease does not envision such right of termination.



In addition, Port staff acknowledges that the proposed Pier 38 lease term is shorter and the leasable area of improvements is smaller than other waterfront projects, such as the Piers 1 ½ - 5 project. These limitations create difficulty for TMG to raise necessary investment capital and to attract high quality tenants that would be willing to invest into tenant improvements. As such, staff believes the proposed sale and refinancing provisions allow TMG to overcome these limitations.

### Construction of Improvements

TMG is required to construct initial improvements as noted above as Proposed Uses.

The improvements budget is estimated at a minimum of \$7,200,000 and shown on Exhibit B. These improvements must be completed within 12 months of Lease Commencement, defined as within 12 months of Port Commission approval. One 12 month extension is allowed.

Port will provide a draft of the completion guarantee in the lease.

### Rent Credits for Improvements and Substructure Repairs

Improvement rent credit is capped at 50% of total annual base and percentage rent (i.e., \$300,000 less rent credit of \$150,000 would equal a net annual base rent to the Port of \$150,000). Rent credits may be taken for base building core and shell improvements only.

TMG will be granted an additional rent credit that is intended as a substructure reserve fund. This is calculated as an additional 25% of total annual rent (i.e., \$300,000 less \$150,000 rent credit for improvements plus \$75,000 substructure rent credit, if necessary, would equal a net annual base rent of \$75,000). Although the mechanics of this fund still need to be negotiated, this rent credit would provide a pool of money to fund specific substructure repairs prior to the expiration or termination of the lease. TMG is obligated to perform a Rapid Condition Assessment of the pier's substructure every three years (or another schedule as mutually agreed) and will provide such report to the Port.

Neither party is obligated to perform additional substructure work. However, if both parties agree that during the lease, additional substructure repairs are needed, then TMG may use these funds to undertake repairs. Use of these funds is subject to the Port's approval which must be granted for Parcels A and B so long as the investment is commercially reasonable for TMG, but the Port may exercise sole discretion for Parcel C.

If the amount of money accumulated for this purpose is insufficient, then TMG can choose to invest additional monies. In this scenario, TMG can continue to set aside these monies from rent payable without making additional deposits into a reserve fund until such additional investment is repaid.



Prior to the end of the 20<sup>th</sup> year of the lease, if both parties reasonably agree that further substructure work is required to maintain the usability of the pier and that there is an insufficient amount of monies to fund these repairs, then the lease will be extended at that time to allow reimbursement of these repair costs for either one period of 5 years or two successive periods of 5 years each, but in no event would the total term exceed 35 years.

If neither party elects to perform additional substructure repairs and the Port determines to "red-tag" or condemn the pier, then the lease will terminate.

At the end of the lease or upon termination by either party, any balance remaining in the reserve for substructure repairs will be returned to the Port.

### Termination for Full Development of Pier 38

While this proposed project only includes the bulkhead portion of Pier 38, the Port Commission has the ability to direct Port staff at some point to initiate a planning process for the Full Development of Pier 38 which would include: 1) engaging regulatory agencies to determine feasibility, 2) creating a local community advisory group to provide input and guidance, and 3) determining how it intends to select a developer for this separate project.

If the Port Commission eventually approves the lease with TMG, subsequently directs staff for a planning process for the Full Development of Pier 38, and that project is deemed financially and regulatorily feasible, the Port Commission would have to determine the process to select a developer for this Full Development. If through that process, TMG is not selected to be that developer, then the Port may terminate the TMG lease to allow for a Full Development of Pier 38 by another developer.

In this scenario, the Port may terminate the lease after Year 10 (after lease commencement). Such termination should require 3 years notice. If notice is given, then the Port would pay a termination payment based on the year of termination that calculates an average of actual net operating income for agreed upon lease years with a 5% increase, and discounts this amount for the remaining term at a 6% annual rate. For example, if a termination notice is given in Year 7 for a lease termination in Year 10, then the calculated terminal payment has been projected to be approximately \$13.3 million, as illustrated in Exhibit D.

In the event that TMG enters into an agreement with the Port for Full Development, then there is no termination payment due.

### Local Business Enterprises

The Port encourages the participation of local business enterprises (LBEs) in TMG's operations. As noted above, Premier Structures is an LBE. In consultation with the





City's Contract Monitoring Division, TMG agrees to implement good faith outreach efforts to solicit further LBE participation in its operations and provide annual reporting of its efforts to the Port. TMG has identified areas where LBE participation may be implemented: 1) suppliers of goods and equipment, janitorial services, valet parking, printing and some design services for interior signage, etc.; and 2) events: marketing design, website and social media services, suppliers of goods and equipment, janitorial, printing, etc.

### Climate Change

Repair and re-tenanting of the Pier 38 bulkhead may result in these improvements being placed at risk as sea levels rise over the next decades. Given the term of the proposed lease, it is unlikely that these improvements or increased commercial and pedestrian traffic will create more property or safety risks at Pier 38. During the term of the proposed lease, there is some risk that the maintenance of the substructure of this facility will be more difficult and expensive to maintain.

### **Update on Permitting and Regulatory Approvals**

#### California Environmental Quality Act (CEQA)

An Environmental Evaluation application was filed in July 2014. The City Planning Department is in the process of preparing the CEQA determination for the project. Most of the questions from the Planning Department staff have pertained to historic preservation. The renovation and repair work will be done in a manner that is consistent with the Secretary of the Interior Standards for Historic Preservation.

#### Bay Conservation and Development Commission (BCDC)

Port staff and TMG have met with BCDC staff several times to review and discuss the BCDC permitting requirements of the project. Following these meetings, TMG prepared a proposed Public Access Plan (see Exhibit C) and presented it to BCDC and Port staff. The project includes additional dedicated public access areas on the north apron and floating dock as well as improvements to this area and additional amenities to the existing Embarcadero Promenade.

The Pier 38 bulkhead and shed are considered to be within BCDC's "shoreline band" jurisdiction. The major requirements within this area are the provision of maximum feasible public access consistent with the project, and visual and physical access to the Bay.

### **Next Steps**

Pending direction and input from the Port Commission and the public, approval of the Pier 38 bulkhead lease agreement may be presented for Port Commission consideration as early as December 16, 2014. This is dependent on a determination of



environmental review and trust consistency and completion of lease negotiation and documentation. Following Port Commission consideration of the lease, the Board of Supervisors will need to approve the lease and the BCDC will need to issue a permit for Pier 38.

Prepared by: John Doll, Development Project Manager  
Planning & Development

Jeffrey A. Bauer, Senior Leasing Manager  
Real Estate

For: Byron Rhett, Deputy Director  
Planning & Development

Exhibits:

Exhibit A – Site Plan

Exhibit B -- Project Budget

Exhibit C -- Public Access Plan

Exhibit D – Sample Calculation of Lease Termination Payment



**Example of Termination Payment calculation for termination after Year 10  
(Termination Notice delivered after Year 7)**

Year 6 NOI \$ 1,304,487

Year 7 NOI \$ 1,318,535

*Note that actual results would be used in place of above figures*

Average of Year 6 and 7 NOI \$ 1,311,511

Escalated 5% \$ 1,377,087

**Projected NOI Post-Termination**

Year 11 \$ 1,377,087

Year 12 \$ 1,377,087

Year 13 \$ 1,377,087

Year 14 \$ 1,377,087

Year 15 \$ 1,377,087

Year 16 \$ 1,377,087

Year 17 \$ 1,377,087

Year 18 \$ 1,377,087

Year 19 \$ 1,377,087

Year 20 \$ 1,377,087

Year 21 \$ 1,377,087

Year 22 \$ 1,377,087

Year 23 \$ 1,377,087

Year 24 \$ 1,377,087

Year 25 \$ 1,377,087

**PV at 6% = TERMINATION PAYMENT \$ 13,374,607**









## Exhibit B – Project Budget

### Pier 38 Development Budget

4-Nov-14

#### Design & Development Soft Costs

---

Due Diligence Costs	\$ 75,000
Architecture & Engineering	230,000
Testing & Inspection	100,000
Legal-entitlements, leasing & contracts	200,000
Other consultants	50,000
Outreach	10,000
Environmental & permit fees	113,839
Marketing	30,000
Property Taxes	10,000
Insurance-during construction	51,177
Miscellaneous Soft Costs	33,500
Project Management	150,000
Contingency on Design & Entitlement costs	82,852
Development Fee	328,648
Subtotal Design & Development Soft Costs	\$1,465,016

---

#### Construction Hard Costs

---

Core & Shell Improvements	\$ 4,994,348
Building & Permit Fees	109,887
Escalation	117,713
Contingency	510,423
Subtotal Construction Hard Costs	\$5,732,371

---

---

Grand Total Costs	\$7,197,387
-------------------	-------------

---







## **Exhibit D – Calculation of Lease Termination Payment**

- The Port shall pay a Termination Payment calculated as follows:
  - For Termination in Year- 10: an amount equal to the average of the actual Net Operating Income (NOI) for Lease Years 6 and 7, + 5%, shall be forecast (with no additional increase) to each year from the year following the Termination (Year 11) to the end of the Lease Term, and discounted at a 6% annual rate.
  - For Terminations from Years 11 through 18: an amount equal to the greater of (a) the average of the actual NOI for Lease Years 6 and 7, or (b) the average of the actual NOI for the two Lease years prior to the Termination Notice, with either amount, +5%, be forecast (with no additional increase) to each year from the year following the Termination to the end of the Lease Term, and discounted at a 6% annual rate.
  - For Terminations from Year 19 onward: an amount equal to the average of the actual NOI for the two Lease years prior to the Termination Notice, +5%, shall be forecast with no additional increase) to each year from the year following the Termination to the end of the Lease Term, and discounted at a 6% annual rate.
  - In addition, the Termination Payment shall include amounts expended by TMG on substructure repairs in excess of amounts available in the Substructure Reserve Fund which have not been recouped through Substructure Rent Credits, unless the term of the Existing Lease has been previously extended (in which case the Lease Term for the NOI projections described above shall include such extensions).
- The Port may elect, to make the Termination Payment in one of the following ways:
  - In a single lump sum payment on the Termination Date.
  - In two payments: 35% on the Termination Date, and 65% one year later, with the unpaid balance carrying a 6% interest rate.
  - In 5 annual level self-amortizing payments, at 6% interest, with the first payment on the Termination Date and annually for the subsequent 4 years.
  - The inclusion in the Lease of the last two options (i.e., making the Termination Payment over time) is subject to agreement on securing the obligation to Tenant's satisfaction.
- In the event that Tenant or an affiliate or related party enters into an agreement with the Port for "full" development of Pier 38, no Termination Payment shall be due under this Lease.

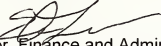




## MEMORANDUM

November 14, 2014

**TO:** MEMBERS, PORT COMMISSION  
Hon. Leslie Katz, President  
Hon. Willie Adams, Vice President  
Hon. Kimberly Brandon  
Hon. Mel Murphy  
Hon. Doreen Woo Ho

**FROM:** Elaine Forbes   
Deputy Director, Finance and Administration

**SUBJECT:** Request Approval of Fiscal Year 2014-15 Executive Director Salary

**STAFF'S RECOMMENDATION:** Approve Attached Resolution

---

Charter Section B3.581(h) grants the Port Commission the exclusive authority to set the compensation of the Port's Executive Director. The Charter provides that the Executive Director's compensation shall not exceed the prevailing salaries paid to those holding similar positions in comparable maritime employment. It is the Port Commission's practice to also review the salaries of directors of other enterprise and similar departments within the City and County of San Francisco, and to set the benefits and working conditions in accordance with the Municipal Executives Association (MEA) memorandum of understanding.

### Salary Survey

Staff conducted a survey of the salaries of port directors in the eight major West Coast ports. Of the eight seaports surveyed, three have authority over both the seaport and the airport. The remaining five ports have jurisdiction over the seaport only. For the five seaports, the average salary is \$272,176 as of November 5, 2014 and ranges from \$225,000 in Stockton to \$350,000 in Long Beach. A listing of these salaries is attached. While the City Charter does not define "prevailing salaries", Port staff, in consultation with the City Attorney's Office, considers the range of salaries paid to directors of West Coast seaports to be reflective of prevailing salaries in comparable maritime employment. However, the salary survey does not make adjustments for cost of living, or compare West Coast Port size and complexity, but instead provides the most current salaries to inform the Port Commission's deliberations.

This Print Covers Calendar Item No. 13A





These seaport directors (with the exception of Port of Stockton who is provided a \$1,000 monthly car allowance) are also provided with an agency vehicle and free parking. The Port's Executive Director declined the use of a Port vehicle. Additionally, the Port's Executive Director pays, on a monthly basis, for parking at the Port for her private vehicle.

Staff also surveyed the salaries paid to the directors of other enterprise departments and similar departments in the City and County of San Francisco, including the Airport, Public Utilities Commission, Department of Public Works, Health Department and the Municipal Transportation Agency. The average salary is \$279,908, with a range from \$218,589 at the Department of Public Works to \$310,452 at the Airport as shown in the attachment.

**Port Director Salary Discussion and Options**

Adhering to the Charter provision that the Port Executive Director's salary be set by the Port Commission, the Port Executive Director is subject neither to collective bargaining nor representation by an employee organization. Conversely, nearly all other department heads including the Mayor are represented by the MEA and have their salaries set through the collective bargaining process.

As a matter of practice, the Port Commission traditionally follows MEA's compensation attributes in setting the Port Executive Director's compensation. The MEA Memorandum of Understanding (MOU) is adopted for Fiscal Years 2014-16. In negotiations, MEA and the City agreed to an economic package equivalent to an 8.5-9.5% increase over the next three fiscal years, including a 3% increase effective October 11, 2014 and a 3.25% increase effective October 10, 2015. In the third year, the increase is effective July 1, 2016 and is between 2.25% and 3.25% depending on inflation.

Applying the MEA MOU to the Port Executive Director salary would result in the following salary schedule:

Current Salary	\$250,744
3% increase effective 10/11/14	\$258,258
3.25% increase effective 10/10/15	\$266,656
2.25% - 3.25% increase effective 7/01/16	\$272,662 - \$275,314

Since the Port Director's salary is lower on average than that of other Seaport directors and similar department heads in the City and County of San Francisco surveyed by \$21,432 and \$29,164 respectively, the Port Commission should consider a salary increase beyond 2.07% for FY 2014-15.

It is the Port Commission's authority to set the Executive Director's salary for one fiscal year or for a longer term. Port staff has previously recommended that the Port Commission set the increase for the term of the MEA MOU since the increase is known.



## RECOMMENDATION

Port staff recommends that the Executive Director's salary be increased at least consistent with the MEA schedule. Therefore, the recommended salary for the Port Executive Director would be set at \$258,258 annually, effective October 11, 2014. If it chooses, the Port Commission also can set the Executive Director's salary now for FY 2015-16 consistent with the MEA MOU.

This recommendation conforms to the salary setting parameters set in Charter Section B3.581.

Finally, it is recommended that the benefits and working conditions provided to the Port Executive Director in Fiscal Years 2014-16 be the same as those provided to employees represented by the MEA in Fiscal Years 2014-16.

Port staff considers it a policy decision for the Port Commission whether to further increase the Executive Director's salary within the prevailing wage range of other seaport directors.

Once the Port Commission sets the Executive Director's Salary, Port staff will implement the Port Commission's decision.

Prepared by: Lavena Holmes  
Human Resources Manager

For: Elaine Forbes, Deputy Director  
Finance & Administration

Attachment 1:  
West Coast Port Directors/City Department Heads Salary Survey



**PORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO**

**RESOLUTION NO. 14-61**

- WHEREAS, Section B3.581(h) of the Charter grants the Port Commission the exclusive authority to set the compensation (salary and benefits) of the Port Executive Director; and
- WHEREAS, Section B3.581(h) of the Charter provides that the compensation of the Port Executive Director shall not exceed prevailing salaries paid to those holding similar positions in comparable maritime employment; and
- WHEREAS, a survey of salaries paid to Port Directors in the major west coast seaports indicated that the current average compensation is \$272,176; and
- WHEREAS, a survey of City department heads in similar enterprise departments indicated that the average salary as of July 1, 2014 is \$279,908; and
- WHEREAS, it has been the practice of the Port Commission to establish benefits and working conditions for the Port Executive Director in accordance with the benefits and working conditions provided in the collective bargaining agreement between the City and the Municipal Executives Association; now, therefore be it
- RESOLVED, that the salary of the Port Executive Director effective October 11, 2014 will be \$258,258 per year, and, be it further
- RESOLVED, that the benefits and working conditions provided to the Port Executive Director in Fiscal Years 2014-15 will be the same as those provided to employees represented by the Municipal Executives Association in Fiscal Years 2014-15.

***I hereby certify that the foregoing resolution was adopted by the San Francisco Port Commission at its meeting of November 18, 2014.***

\_\_\_\_\_  
Secretary



West Coast Port Directors  
City Department Heads  
Salary Survey November 2014

Port	Current Salary	Sea/Air	Effective Date	Total Empls	Total Gross Rev. (FY 10/11) (Millions)	Increase From Prev Review	Total Cargo Millions (Metric Ton)	Bargaining Unit	Civil Service Classification	Flat Rate/ Sal Range	Next Salary Increase
1 Seattle	\$364,139	Sea/Air	1/1/2012	1700	\$516.80	Increase	2.03	No	No	Fiat Rate	unknown
2 Long Beach	\$350,000	Sea	10/1/2014	474	\$322.00	Decrease	145.14	No	No	Salary Range	unknown
3 Portland	\$346,565	Sea/Air	8/25/2011	769	\$277.00	Increase	13.63	No	No	Salary Range	unknown
4 Oakland	\$334,750	Sea/Air	6/21/2014	459	\$379.82	Increase	60.51	No	No	Fiat Rate	unknown
5 Los Angeles	\$309,984	Sea	1/1/2012	999	\$400.50	Decrease	158.20	No	Yes	Salary Range	unknown
6 San Diego	\$250,000	Sea	7/12/2011	531	\$142.40	Increase	2.80	No	No	Fiat Rate	unknown
7 Tacoma	\$225,894	Sea	4/1/2012	250	\$114.10	Increase	17.27	No	No	Salary Range	unknown
8 Stockton	\$225,000	Sea	6/2/2008	90	\$60.89	Increase	5.59	No	No	Fiat Rate	unknown
Avg- All Ports	\$300,792										
Avg- Seaports	\$272,176										
San Francisco	\$250,744	Sea	7/1/2009	252	\$63.80						

CCSF DEPARTMENTS	
1 Director, Airport	\$310,452
2 Director, PUC	\$309,322
3 Gen Mgr, MTA	\$294,000
4 Director, DPH	\$267,176
5 Dir, DPW	\$218,589
Average	\$279,908
Port Director	\$250,744

Port Executive Director Salary Difference  
All Port \$50,048  
Seaports \$21,432  
SF Dept Head \$29,164

Port Executive Director Salary - proposed\*  
effective 10/11/2014 \$258,258  
effective 10/10/2015 \$266,656  
effective 07/01/2016 less than or = \$275,314

\*proposed salary is derived by adding the percentage increase to base salary and rounding the bi-weekly rate to the nearest dollar in order to arrive at the hourly rate.  
The Port Executive Director's salary is off-schedule.







# **SAN FRANCISCO PORT COMMISSION**

**NOVEMBER 18, 2014  
MINUTES OF THE MEETING**

**MEMBERS, PORT COMMISSION  
HON. LESLIE KATZ, PRESIDENT  
HON. WILLIE ADAMS, VICE PRESIDENT  
HON. KIMBERLY BRANDON  
HON. MEL MURPHY  
HON. DOREEN WOO HO**

**MONIQUE MOYER, EXECUTIVE DIRECTOR  
AMY QUESADA, COMMISSION SECRETARY**



# **CITY & COUNTY OF SAN FRANCISCO PORT COMMISSION**

## **MINUTES OF THE SPECIAL MEETING TUESDAY, NOVEMBER 18, 2014**

### **1. CALL TO ORDER / ROLL CALL**

Port Commission President Leslie Katz called the meeting to order 2:04 p.m. The following Commissioners were present: Leslie Katz, Kimberly Brandon, Mel Murphy and Doreen Woo Ho. Commissioner Willie Adams was unable to attend the meeting due to union negotiations.

### **2. APPROVAL OF MINUTES – October 28, 2014**

Commissioner Woo Ho - I have one amendment on page seven of the minutes. Please change the word release to relieve so it should read..."Relieve some of the pressure."

ACTION: Commissioner Woo Ho moved approval as amended; Commissioner Brandon seconded the motion. All of the Commissioners were in favor. The minutes of the October 28, 2014 meeting were adopted as amended.

### **3. PUBLIC COMMENT ON EXECUTIVE SESSION**

### **4. EXECUTIVE SESSION**

#### **A. Vote on whether to hold closed session.**

ACTION: Commissioner Woo Hoo moved approval; Commissioner Murphy seconded the motion. All of the Commissioners were in favor.

At 2:05 p.m., the Port Commission withdrew to executive session to discuss the following:

Commissioner Katz – I would like to pull the public employee performance evaluation and continue that to our next meeting.

#### **(1) CONFERENCE WITH LEGAL COUNSEL REGARDING EXISTING LITIGATION MATTER (Discussion and Action Item):**

- a. Discuss existing litigation matters and possible approval of proposed settlement pursuant to Sections (a) and (d) of California Government Code Section 54956.9 and San Francisco Administrative Code Section 67.10(d):



- Carl Ernst, Jr., individually and as successor in interest to Pier 38 Maritime Recreation Center, Inc. v. Monique Moyer; the City and County of San Francisco, and related cross-action; San Francisco Superior Court (Case No. CGC-10-501887 filed July 23, 2010) ("Ernst Case")
- City and County of San Francisco v. Carl Ernst, Jr., and Pier 38 Maritime Recreation Center, Inc.; San Francisco Superior Court (Case No. CUD-07-621476 filed March 27, 2007) ("2007 UD Action")
- City and County of San Francisco v. Carl Ernst, Jr.; San Francisco Superior Court (Case No. CUD 09-631352 filed November 5, 2009) ("2009 UD Action"), and related appeal to California Court of Appeal, First District (Case No. A133139 filed September 11, 2011) ("Unlawful Detainer Appeal")

Proposed settlement of litigation between the Port and Carl Ernst Jr. ("Ernst"), individually, and as successor to Pier 38 Maritime Recreation Center, Inc. (collectively, the "Parties"). The claims that Ernst alleged against the Port include breach of contract and partial eviction. The claims that the Port alleged against Ernst include breach of contract, trespass, nuisance and waste.

The terms of the proposed settlement include (i) the Parties' mutual dismissal with prejudice of the Ernst Case; (ii) the Port's filing of a full satisfaction of the judgment in favor of the Port and against Ernst for \$871,698 in the 2009 UD Action; (iii) Ernst's filing of a full satisfaction of the judgment in favor of Ernst against the Port for \$49,910 in the 2007 UD Action; (iv) Ernst's filing of a request for dismissal with prejudice of the Unlawful Detainer Appeal; (v) a mutual release of claims between the Parties; and (vi) other terms and conditions contained in the proposed Settlement Agreement and Mutual Release among the Parties on file with the Port Commission Secretary.

(2) CONFERENCE WITH LEGAL COUNSEL AND REAL PROPERTY NEGOTIATOR – This is specifically authorized under California

Government Code Section 54956.8. \*This session is closed to any non-City/Port representative:

- a. Property: AB 4052; 4111, lots 3 and 4; also known as Pier 70 Waterfront Site, located near the intersection of 22nd Street and Illinois  
Person Negotiating: Port: Byron Rhett, Deputy Director, Planning and Development  
\*Negotiating Parties: Forest City Development California: Kevin Ratner, Alexa Arena and Jack Sylvan



Under Negotiations: \_\_\_\_ Price \_\_\_\_ Terms of Payment ☒ Both  
Pursuant to Resolution No. 11-49, the Port Commission awarded to the non-Port party an exclusive negotiation agreement with the Port for the lease and development of the property. In this executive session, the Port's negotiators seek direction from the Port Commission regarding price and/or terms of payment, including rent structure, financing mechanisms, and other factors affecting the form, manner and timing of payment of the consideration for the property interests. The executive session will enhance the capacity of the Port Commission during its public deliberations and actions to set the price and payment terms that are most likely to maximize the benefits to the Port, the City and the People of the State of California.

(3) **PUBLIC EMPLOYEE PERFORMANCE EVALUATION (Discussion Item)**  
**This item was taken off the calendar.**

Monique Moyer, Port Executive Director. Discussion of Performance Evaluation pursuant to Section 67.10(b) of the Administrative Code and Section 54957(b) of the California Government Code.

**5. RECONVENE IN OPEN SESSION**

At 3:30 p.m., the Commission withdrew from closed session and reconvened in open session

ACTION: Commissioner Brandon moved approval to adjourn closed session and reconvene in open session; Commissioner Murphy seconded the motion. All of the Commissioners were in favor.

ACTION: Commissioner Brandon moved approval to disclose that in closed session, the Commission voted four to zero to approve the settlement agreement with Carl H. Ernst Jr. as described in the agenda Item 4A.(1a) and to not disclose any other information discussed in closed session; Commissioner Murphy seconded the motion. All of the Commissioners were in favor.

**6. PLEDGE OF ALLEGIANCE**

**7. ANNOUNCEMENTS:** The Port Commission Secretary announced the following:

- A. Announcement of Prohibition of Sound Producing Electronic Devices during the Meeting: Please be advised that the ringing of and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing of or use of a cell phone, pager, or other similar sound-producing electronic device.





- B. Announcement of Time Allotment for Public Comments: Please be advised that a member of the public has up to three minutes to make pertinent public comments on each agenda item unless the Port Commission adopts a shorter period on any item.

**8. PUBLIC COMMENT ON ITEMS NOT LISTED ON THE AGENDA**

**9. EXECUTIVE**

A. Executive Director's Report

- Crab Season Opening Day – November 14, 2014

Monique Moyer - Good afternoon Commissioners, members of the public, Port staff, Jonathan's children and General Myatt. Thank you all for coming today. As the Mayor proudly said today in World Champion Number Three's Home City San Francisco. Jack, I hope you heard that today. We are very proud of the San Francisco Giants.

I have a few things to report on the Executive Director's report. Most are glorious, some are sad. I want to start with the glorious news in which we are having what appears to be a banner crab season. As you know, the crab season officially kicked off this past Friday, November 14, 2014 and it has been a flat out run ever since. The conditions, the moon and the stars really came together well. The fishermen and the processors arrived on a price pretty easily in comparison to previous years and in advance of the official opening day. So there were no delays in that.

We had everyone in town waiting and ready to go. We had perfect weather which has been helpful. It turns out that there appears to be a very good volume of crabs available for the catch. All told, we have about 75 boats which seems to be at least a record in modern time, for the season. We have 45 different non-local vessels in addition to our usual 30 local vessels. Of the 45 out of town vessels, 30 of them have never fished here before during crab season.

It's a huge coup for all of us and we are very happy about that. We have been trying to get the various captains to disclose exactly how much they're catching. They are unwilling to do so, but grinning mischievously according to Dimitri, one of our wharfingers. We're happy to hear about that.

As you probably know, there is some weather brewing, coming our way beginning tonight. We expect to see maybe some of the vessels staying in. We hope for their own safety in the coming days and then continuing to fish through Thanksgiving and then we expect the out of town vessels to



go back up coast when the seasons in Oregon and Washington open as well.

Thank you to a number of our fish processors and to Red and White fleet for helping us accommodate all of these vessels. If you've been up in Fisherman's Wharf you couldn't help but see the hundreds and hundreds and hundreds of crab pots that were stacked up, crab pots that were riding up the Embarcadero on flatbed trucks. You couldn't help but see the vessels tied three and four side by side. We've had to work with our Pier 45 tenants to help make sure that there was room for everyone. We have absolutely no vacancy in Hyde Street right now which is a fun thing to have happen.

A big thank you to everyone involved particularly the Port's maritime staff. Also our best wishes to all the fishermen for a bountiful and safe season. If you haven't been out to get your crab, go get it. It's looking awesome.

- Special Port Commission Meeting – December 16, 2014

I want to remind everyone that we have a special Port Commission meeting in December. Our regularly scheduled meeting for the second Tuesday of December is pushed back to the third Tuesday of December. Same time, same place so here in the Port Commission room at the Ferry Building on Tuesday, December 16, 2014 with Open Session commencing at 3:15 PM.

- Schedule of Port Commission Meetings for 2015 attached hereto

I wanted to note that the Port Commission meeting calendar for 2015 has been posted. All of the meetings are posted on our regularly scheduled second and fourth Tuesdays of the month. Just a reminder that about six months of the year, we meet twice a month, and six months of the year, we meet once a month. Please check the calendar going forward but it is now posted for 2015.

- San Francisco's Exploratorium and EHDD Architecture Win Prestigious Urban Land Institute Global Award for Excellence

As you probably know, the San Francisco Exploratorium has been having itself a banner year and has been the recipient of a gazillion awards and they just got one of the most prestigious awards ever.

On October 22, 2014, they were selected as the 2014 Urban Land Institute Global Award for Excellence. They competed against 13 real estate developments from around the globe and they won. This award is one of the most prestigious in the real estate land use arena. It recognizes



real estate projects that achieve a high standard of excellence in design, construction, economics, planning and management. Recognized with them was San Francisco based EHDD, their architect and engineer and developer Wilson Meany.

It is a very prestigious award. We're proud of the museum which is now a 45 year San Franciscan. So we're happy about that. Their outreach is incredible. I hadn't realized how far and wide the Exploratorium reaches outside of San Francisco but they're certainly doing an amazing job here in San Francisco. Laura Zander is the Chief Operating Officer of the Exploratorium and would like to say a few words.

Laura Zander - I think you said most of it Monique, but first, I just wanted to come up here mostly to say thank the Port for our great working relationship. I'll make a plug for Jay Edwards, Monico Corral and Phil Williamson whom I work with very closely on a monthly basis but there are so many other people that we touch. So if that was an opportunity to say thank you, that's great.

As you mentioned, we won this awesome award. There were over 200 applicants for the award, 23 finalists and 13 global winners. We're in the company of projects around the world, Singapore, Stockholm, Norway, San Diego, Pennsylvania -- the Bethlehem Steel Art Environment that they've created.

It's really an amazing award, not just for design and architecture but for contributions to the community, innovations, public/private partnership as we have expressed here, environmental protection and enhancement, response to societal needs, creative financing and economic success.

I think we touched all those points. We hit all those criteria. As you said, it's very prestigious and we feel extremely proud and extremely proud to be on the San Francisco waterfront. It's an amazing place to be and so hopefully we'll have a long future here.

Monique Moyer - Thank you Laura and I just want to recognize all of the great team at the Exploratorium and the fact that you helped us to celebrate a magnificent Fleet Week, the first one since you've joined us at the waterfront. I know everybody loved visiting the vessels there at your pier as well. Thank you for coming today.

Commissioner Katz - Congratulations and thank you on behalf of all the Commissioners. We're thrilled for you to have received this award and for all of the wonderful events and tours that you hold at the Exploratorium.



- Presentation by Major General J. Michael Myatt (Ret.), U.S. Marine Corps and Fleet Week Chairman

I'd like to recognize General Mike Myatt. We talked at our meeting in early October about the amazing success of Fleet Week and everybody's keen sense of delight that it was back in town after a one year hiatus in a quarter of a century is pretty remarkable. I know General Myatt you have some words for all of us, so welcome.

General Mike Myatt - I can't thank the Port enough for the cooperation and support that we got all through Fleet Week. This is probably the best Fleet Week that we've had and a lot of the ones who were most impressed were the Marines and the sailors themselves. Because there's a reputation that San Francisco has of being anti-military and it's quite the opposite. They just rolled out the carpet for the visiting Marines and sailors. I want to thank the Port specifically. Because your participation in our Senior Leaders Seminar and the support of everybody from soup to nuts. I just can't thank you enough. I would like to make a presentation to the Port. Our iconic photo and this year it was taken in front of the Ferry Building.

Monique Moyer - That is awesome. That is outstanding.

General Mike Myatt - I hope you'll put this in a visible place and enjoy it.

Monique Moyer - If I may also recognize Mr. Flowers, from the Board of the Fleet Week Committee who is presenting the photo President Katz and Louis Loeven, and our partners at the Port, and DEM, sitting behind him, so hopefully you know Diana and everyone else. It was a group effort, General, but you outdid yourself this year. There is really no doubt. The number of ships, the number of decorated high level officials that were in town was stunning. It was really fantastically useful for all of us. I encourage you to keep on doing it. We're proud to partner with you and to bring in the Exploratorium to be part of it. It was a great event. Thank you very much, General. You deserve the award and more. Thank you for picking a Port icon as part of your picture.

General Mike Myatt - Ed Flowers conceived that and the iconic photo.

Ed Flowers - I'd like to add an additional comment. In addition to doing our iconic photo in front of the Ferry Building, this Fleet Week, we did another event here. We had a stamp cancellation in the lobby. It was the Marines Have Landed and it was around the Marines coming in on the assault ship the U.S.S. America which was commissioned here. I want to say that Jane Connors, who's in charge here in the building, I was asked several times, "How are things going with the ferry building? How're things going with that?"





I told them all very frankly, when we met Jane Connors, "It was like being in your mother's arms." She couldn't do enough for us, proactive. She thought of things that we needed that I hadn't thought of and she said, "Here, I think you need this." And it was done. We just want to publicly say how much we appreciate her and how much we appreciate the cooperation we had here at the Ferry Building.

Monique Moyer - And she brought into the building the folks giving out the stamps because it was so incredibly hot outside.

Ed Flowers - That's another example. In our initial meetings, we had decided that a location outside of the building, where the Post Office actually set up a temporary Post Office with Post Office personnel. I was down at the Golden Gate waiting for the ship to come in and I wasn't here when they set up. When I got down here, I looked all around. Where is everything? Jane had moved them from there into the lobby of the building, which was much more comfortable. It really worked and it was really a nice thing to do. Thanks again Monique.

Monique Moyer - Thank you. Everybody can see, I don't know that I'm holding it, it's too low. But it's a lot of work I learned in this process to get all of these young men here before breakfast and to get the street closed and all of the different things and Mr. Flowers was incredibly patient with all of the gymnastics that we go through trying to manage all of the activity here at the waterfront. It turned out beautifully, so kudos to all of you.

Ed Flowers: Thank you very much.

Commissioner Katz - Now on behalf of the Port talking about this item, we want to present General Myatt with a little token of our appreciation. I will echo all of Monique's words about how extraordinary your work and dedication has been to ensuring the success of Fleet Week.

As you mentioned, San Franciscans love Fleet Week and they turn out and they support the members that are here when they come to visit San Francisco. It's one of those things that we are so thrilled it came back again this year. You have been at the forefront of ensuring the most successful Fleet Weeks ever for many years. I want to thank you on behalf of the Port.

Monique Moyer - I'll take the opportunity, as Corinne corrected me, that there are men and women who are here. I have a boy and a girl and the boys are always more hungry than the girls. Thank you, General and to all the Fleet Week team and to Admiral Breckenridge and Louis Loeven and the entire Board, we are so lucky to have all of you and we really greatly appreciate it.



- Special Recognition for Jonathan Stern, Assistant Deputy Director of Planning and Development

I still have a few more items, believe it or not. So the next one I'm not so thrilled about. Jonathan Stern, sitting here in the front row surrounded by an amazing harem of lovely girls is decided that he has an opportunity to go do something bigger and better than the Port, which is hard to imagine, but apparently there are such opportunities out there.

Jonathan has been the Assistant Deputy Director for Development in our Planning and Development Division now for a little over seven years. He's actually been working with the Port in some capacity off and on for it sounds like a decade and a half more or less. As you know him well Commissioners, and I think the public knows him well, Jonathan has had a humongous impact on the Port. He has been the driving force behind a lot of projects that will be legacy-making for not just his children, but his children's children someday - the Exploratorium being one of them but also the project at Seawall Lot 337, the project at Seawall lot 351, the project at Pier 70 and numerous other projects.

Jonathan is best known, at the Port and outside of the Port, for his incredible analytical ability and his keen perspective on calculating value and understanding how to, if you'll forgive me, manipulate that value so that it's beneficial to all parties. Not everyone has always loved that trait about him which makes me extremely happy, because I always find that to be a terrific sign.

So not to steal too much of Jonathan's thunder, but he has an opportunity to go work in the Office of the President at the University of California which as you know has a portfolio of 10 campuses and five medical centers throughout the state and is currently under the amazing leadership of Janet Napolitano who is ready to take on the Governor it sounds like. It should be a very exciting time for Jonathan and we wish him and his family very, very well and again a great opportunity to make more legacy. I've had a wonderful time working with Jonathan. We've had some terrific debates over the past seven years. I have won them all, just so you know. There is such a thing as rank, right General? I have won none, by the way.

It's been a terrific learning experience for me and a great partnership and I know that I will miss you terribly as well I think many of your colleagues will be camped out in Merced trying to heckle you I think when you bring those projects forward.

Commissioners, I'm very sad to report that Jonathan will be leaving us at the end of today more or less and going on to a partner agency and we hope to see more of him. Maybe the campus will expand here in San Francisco, want to do Maritime or something. Jonathan thank you and



your family who I'm sure has lived through a lot of sacrifice for all that you've done for the Port and may you always come back and enjoy the wealth of your labor.

Commissioner Katz - A little out of order here and we should have also done this with the presentation with General Myatt. We'd like to take Public Comment on the items before us during the Executive Director's Report. Those of you wishing to make comments, please line up and come forward.

Diane Oshima with the Planning and Development Division - I wasn't knowing whether I would have a chance to thank and congratulate General Myatt and the whole Fleet Week team because we really did have a lot of fun as well as a lot of success.

I also wanted to express my thanks and appreciation for everything that Jonathan has done for the Port. It's been a really challenging time for the Port over the last 10 years while Jonathan has been here and the complexity and the complications of trying to move projects forward and understand how you can balance so many more interests than we started with, with our earlier projects. We were only able to accomplish because of the things that Jonathan was able to provide for the Commission as well as his colleagues.

I can't say enough for the hole that he is leaving in our organization and how we're going to have to scramble a bit and hopefully the public will bear with us, not only on the analytical and the development side, but also on the community relations side too because he has been managing the Northeast Waterfront Advisory Group. We maintain ongoing discussions with them and those are clearly going to be key as we try and move forward. He somehow has balanced that all with having three kids and a whole family life on the other side.

I know how challenging that can be Jonathan. I wish you well. UC is proving that they're quite mature because they're hiring a Stanford alum to take this position. Kudos for world peace here.

Brad Benson - I wanted to congratulate you so much on this opportunity. It seems like an amazing fit for your talents and I hope that you can bring this sort of level of skill and analytical ability to UC that you brought to the Port. I enjoyed collaborating with you on the America's Cup, both the good and the bad. On 337, you've really brought the Port along in terms of how we structure real estate deals. You're our conduit to how the private market is thinking and we'd be years behind without your skills. Kids, you're very lucky to have such a smart dad. I'm sure he's a great help with your homework. I wish you all the best Jonathan, thank you.



Byron Rhett, Planning and Development Director - I wanted to congratulate Jonathan on his new position and thank him for all of the work that he's done at the Port and thank his family for making him available for all those hours that he's put in. As Planning and Development Director, my background is more planning than development. I really relied on Jonathan and he's made my job a lot easier. We've strategized about how many people it's going to take to replace you now that you're gone but I do want to mention one thing.

We've talked about the great projects that you've been involved in and the successes, but our relationship started regarding a failed project. But sometimes those projects really test you and that project really cemented our relationship. But all of the skills that it takes to make a project work, they all came into play. I won't name the project. It's come and gone, but no complaints. I think that was a great start for us and I really appreciate it. It's definitely many more than seven years but I appreciate all the work in our relationship.

Peter Dailey - I'm going to do a twofer here. Jonathan, we're going to miss you. Kids, listen to your dad. He usually knows what he's talking about, believe it or not. He really does. I'm really thrilled that he's going to the UC system, now if you could just help the real estate division, but really the football team really needs a boost. So anything you can do with that. Congratulations and good luck in your future endeavors and I'll see you on BART or someplace on Telegraph Avenue.

The second part of my comment, I just wanted to acknowledge again General Myatt. You know, the word "hero" is thrown a lot these days and it's kind of cheapened. But in our midst today is an authentic American hero. General Mike Myatt. He has been a wonderful civic leader. Fleet Week this year was amazing with his effort, the U.S.S. America was commissioned in San Francisco.

But further back than that with Veteran's Day just being last week. In 1990, General Myatt led the 22,000 Marines of the First Marine Division into Kuwait to recapture Kuwait. This man is an authentic hero. I'm honored to meet him and I wanted to thank him for his help in San Francisco and we hope to see him next year for an even better Fleet Week.

Susan Reynolds from the Real Estate Department - Jonathan, I hate to say goodbye to you but I wish you the best of luck. I want to thank you for all your insight and honesty and support of the Real Estate Department. Thank you family for sharing him. I know that you've all given up his time with us because he spent so much time here.

I understand you're a very analytical family so I asked him today, "How you get anything done in the family? You must have to analyze





everything." But it sounds like we have a future architect and some really good analysts in the family. Maybe they will come back and share that with the Port someday in the future. Thank you very much. We'll miss you and I think you're going to look forward to seeing your legacy along the waterfront as years go on because I think it's going to last a while.

Elaine Forbes, Port CFO - I also want to congratulate Jonathan. He has just been an absolute pleasure to work with, an amazing collaborator, always someone who has many ways to solve a problem. My colleagues have said what a big hole we'll have to fill without him. We've all really relied on him but I have to make a public admission while he's here and his family is here. Twice Jonathan and I talked about numbers and analysis and sort of the bottom line of an equation related to a development deal and he very quickly put a number on the board and left. And I thought, "Okay, I'm going to validate that number." It took me about two hours with a spreadsheet and it was the same number. It happened to me twice. He's very smart. We'll miss you.

Jack Bair with the San Francisco Giants - On behalf of the Giants family, Fran Weld, Jon Knorrpp and myself, we wanted to congratulate you on your new position. I also assure Monique that Jonathan was a zealous advocate of the Port's interest at all times.

Monique Moyer - You never complained though, I know.

Jack Bair – He's also an incredibly smart and sophisticated person on the other side of a transaction, which is often what you really want in a sophisticated and complicated transaction. Thanks for all of your time and your help and your energy on behalf of the Port and in connection with our projects, the parking lot, the Mission Rock project and so forth. We wanted to present you a token of our appreciation that's worth less than \$25, a signed autographed baseball by Jack Bair, Fran Weld and Jon Knorrpp.

Jonathan Stern - President Katz, members of the Commission, Port staff and public. The first thing I'll say is I really hate praise. You might not know that but my family does. I am really humbled and honored to be here and I'll echo Peter Dailey to say I'm honored to be here with General Myatt and not just his myriad of accomplishments but what he keeps giving back to San Francisco and the waterfront.

I learned about public service here at the Port, learned it from the Port Commissioners who serve and the Port staff and I've been honored to serve with all of you. I am heartened about the legacy that people are talking about today and I believe it. I'm moving forward again to public service to try to create some more of that legacy.



Nothing will ever be quite the same as working on the waterfront where the legacy is right up in front and intermingled the new with the old and the historic. I will always treasure my memories here and I will come and visit it and life is long. I thank you for the opportunity to serve.

Commissioner Katz - First of all, your son and daughters should be very proud of you. As you've heard from your colleagues, you rarely hear so much praise heaped on somebody at work and this is just a fraction of what he really deserves. We've all used the same word, I had already written down I wanted to refer to your legacy but that really is the theme that runs through.

Please be very proud of your father. As a Cal grad both undergrad and grad school, I am very pleased that you're joining Cal but as a Port Commissioner I am very sorry to see you leave because you really have been such an extraordinary part of the fabric here at the Port. Over the years that you've been here, being part of the dynamism that's taking place along the waterfront from the Exploratorium, to Pier 70 which the voters overwhelmingly supported just recently, to working with SWL 337, America's Cup and so many other projects. Everything you can point to that's really drawn people to the waterfront now, you have been front and center and you will certainly be sorely missed, but your legacy will live on.

I have always appreciated working with you. It's really been a pleasure but in particular, this has been pointed out, your ability to analyze some complex transactions that have come before us and explain it to those of us that don't do this day in and day out to feel comfortable in the negotiations that you've undertaken and have kept us apprised of and worked with us. We've all felt such a great level of comfort knowing that you were involved in coming up with those terms. I am very sad to see you leave but very grateful for what you've left behind here at the Port. It's been an absolute delight working with you. Thank you.

Jonathan Stern - Thank you.

Commissioner Brandon - I too am going to miss you. I had the opportunity to work with you when you were a consultant to the Port and I remember that failed project that Byron was referring to. It's been absolutely wonderful working with you and I am going to miss your very deep knowledge of all the projects and your very detailed presentations. As Commissioner Katz said, the level you're able to break everything down and help us understand what's going on is just wonderful. We're going to miss you. Congratulations and thank you.

Jonathan Stern - Thank you.



Commissioner Murphy - Great getting to know you for the last couple of years. You did a great job in all the projects that you worked on that I was involved in. I wish you a lot of success in your new job, new endeavor. You seem like a very happy man, you have a great looking family there. The apple didn't fall too far from the tree I notice. Good luck.

Jonathan Stern - Thank you.

Commissioner Woo Ho - I also want to congratulate you. We had a little chance to talk at lunch and great to see your family here today and have them notice that they have a great day. I also wanted to add, and all the other things that have already been said which I concur with, I probably have been one Commissioner who has challenged you a lot in terms of your analysis and your numbers and asked you to think further out of the box sometimes in some of our negotiation deals. I want to say that I respect that you took it all with a lot of aplomb, patience, didn't look too frustrated, just went back and tried to answer the questions that I would ask. I really do appreciate that. That's really the sign of a great, in terms of the staff and what we have appreciated here at the Commission.

Our job is to ask questions and you sometimes have to have the difficult job of answering those questions which are not so easy at times. But I appreciate all that you've done and I wish you very well. It sounds very exciting what you're going to go do at UC. Thank you.

Jonathan Stern - Thank you.

Commissioner Katz - On behalf of the Port, the Port Commission want to extend a plaque to you in appreciation of your leadership, friendship and outstanding efforts at the Port of San Francisco.

- In Memoriam – Sal Tarantino, S.P. Tarantino Insurance, Port Tenant

Last week we lost an icon around the waterfront, Salvatore Tarantino, we all know him as Sal. Sal was a native San Franciscan. He was raised in the Marina. He was a graduate of St. Ignatius in 1950. A little known fact, after high school, he went off and joined the Coast Guard and eventually deployed to Japan during the Korean War. It sounds like he didn't see much of war, it was more of a holiday, I think. But he had a really wonderful time at sea. When he came home, he founded his long-time company, the S.B. Tarantino Insurance Brokerage which he located on Jefferson Street on Fisherman's Wharf.

He took a short hiatus from that. Sal's uncle was the Mayor of San Francisco, Mayor Alioto. During the '70s, Sal became the Executive Vice President of something known as the Pacific Far East Lines where he again got to travel the world as a mariner. In his pseudo-retirement years,



because he actually never retired, he was an avid tennis player playing in tournaments every weekend in his beloved Napa and then coming home to be at the waterfront in the wee hours of the morning.

He was best known for walking the length of the waterfront in his exercise at three or four in the morning and checking up on everybody and cautioning all the young women who were out running alone that they shouldn't be doing that. Last week he passed away in his late 80s and there will be a funeral mass of his life on Thursday, November 20, 2014 at 10:30 AM, at St. Peter and Paul's Church in North Beach.

We are going to really miss him. He was extremely fond of the waterfront and particularly of the Port and its maritime history and its maritime future. As I've talked to a number of different people, everyone has remembered what a gentleman he was and in his tennis playing years he was very aggressive. But other than that he was very sweet and gentle and just a great person to have around the waterfront, and we will miss him. On behalf of Sal, "Over and out," would be his saying. I would love to ask you to adjourn in Sal's honor today.

B. Port Commissioners' Report:

- Signing of Philippine Ports Authority and Port of San Francisco Sister Port Agreement – November 7, 2014

Commissioner Katz - I have a couple items I'd like to mention. First as has been alluded to, Proposition F passed this past election which goes to the Port's project with respect to Pier 70. We're thrilled that we'll be seeing that project move forward and as has often been pointed out to me, it's very much in keeping with the original RFP that went out a few years back. I'm thrilled that the voters saw fit to concur with the Port's vision for expanding, improving that underserved piece of the waterfront and bringing that up to what should be a spectacular site. We're very excited to be working with the developer to see that project move forward.

I also want to report back that we signed a Sister Port Agreement with the Philippine Port Authority. San Francisco is a Sister City with Manila. We did it one better because the Philippine Port Authority not only has a Port in Manila, but they have a number of others all throughout the country. So we actually have now entered into a Sister Port arrangement with the Philippine Port Authority.

They sent quite a delegation over here. One of the advantages of having a Sister Port relationship is it creates some additional opportunities for trade, for setting up technical working groups, to look at best practices, policies, management and operations within the industry, training programs. We'll explore some logistics, some cruise tourism activities and then we'll





continue to monitor and report back on what has transpired as a result of our Sister Port arrangement. It is an opportunity to look at best practices and establishes relationships with other Ports.

Commissioner Adams and Commissioner Murphy were here for the initial signing ceremony. Commissioner Woo Ho joined us later. Commissioner Brandon unfortunately was out of town and she missed quite an event. They sent over their General Manager, Juan Sta. Ana. They had several members of their Board. They had the President of the Philippine Harbor Ferries. Consul General, Henry Bensurto. Deputy Consul General, Jaime Ascalon. Representatives of the Manila Sister City program here in San Francisco and retired Ambassador Arguelles.

There were a number of Port staff that joined us that were part of helping put together the ceremony and participate in the event. I want to thank everyone involved and we're thrilled that we now have a new Sister Port.

Commissioner Brandon - I would like to congratulate the Giants on winning the World Series again.

Commissioner Murphy - I would like to echo that. Congratulations to the Giants, well done!

Commissioner Woo Ho - Go Giants!

Commissioner Katz - It seemed like forever but it really was pretty recent. We're looking forward to having those trophies show up back here on the waterfront. Congratulations to the Giants team and staff and everyone involved for such a wonderful victory and one of our best and most successful tenants here at the Port. Congratulations!

## 10. CONSENT

- A. Request approval to conduct an informal solicitation from a qualified pool for financial advisory service for a term of three years with an option to extend for two years, with a not-to-exceed amount of \$140,000 annually, or \$420,000 for the life of the contract term. (Resolution No. 14-59)

ACTION: Commissioner Brandon moved approval; Commissioner Woo Ho seconded the motion. All of the Commissioners were in favor; Resolution No. 14-59 was adopted.

## 11. MARITIME

- A. Informational presentation regarding Lease No. L-15875 with BAE Systems San Francisco Ship Repair, Inc., a California corporation, located at Piers 68 and 70 and Seawall Lot 349 near 20th and Illinois Street, for approximately



14.4 acres of land improved with 19 buildings, 17.4 acres of submerged land and Port-owned Equipment, including Drydock #2, the Drydock Eureka and the Shoreside Power System (the "Shipyard"), for a term of 20 years with two (2) five (5) year extension options.

Peter Dailey, Maritime Director at the Port - This is an informational presentation regarding a new lease with a ship repair operator at Pier 70. We hope to come back to you in December or shortly thereafter for your consideration of a final deal.

As you all know, ship repair is a historic use at Pier 70 dating back to the origins of the city, back into the gold rush. Ship repair is the one of the maritime industries in the Bay Area that the Port is the market share leader. There are shipyards in Mare Island and in Alameda but BAE's ship repair in San Francisco in terms of the big ship market is the largest.

BAE took over the lease at Pier 70 in 2005 and since that time our partnership with the shipyard operator has been very beneficial. In fact, in the last five years, the business at Pier 70 for shipyard has increased 70%. There are a number of different factors why that is. The 2007 agreement that the Port Commission passed regarding the expansion of the drydock to handle what they call Post-Panamax Cruise Ships, ships too big to transit the Panama Canal by the addition of sponsons to the drydock that you can see in that picture. That has been a boon for our cruise business here in San Francisco and for our ship repair business. The second major factor is our work with BAE regarding getting the U.S. Government through the Army Corps of Engineers to take responsibility ultimately for the dredging of the entrance to the shipyard. That will reduce our capital expenditures into the future greatly and further enhance our competitiveness.

Lastly, the shipyard in 2013, as part of the America's Cup mitigations, the Port installed shoreside power at Pier 70 which benefits BAE and commercially by offering competitive power to users as opposed to having them burn fuel oil while they're in dock. It also benefits the environment through cleaner air.

Star Princess, one of the first Post-Panamax ships to be repaired in San Francisco in 2008, will be back in December of this year, in a couple weeks, for a 10 day service that will employ upwards of 1,000 people. BAE's Bill Dunbar tells me that there will be approximately 50,000 man hours of labor.

Ricky Tijani from Planning and Development will discuss the details of the deal. We are joined here today by Gerry Roybal, our Ship Repair Commercial Manager and Rona Sandler from the City Attorney's Office who kept an eye on us going forward.

As I mentioned, ship repair is a major industry for San Francisco employing hundreds of people. Our current lease with the shipyard expires in 2017. We



talked about legacy earlier today, and ship repair dating back to 1850 is a legacy industry for us that we think there is a nice future going forward. We're thrilled for the opportunity to negotiate a new lease. The economic benefit of the yard is tremendous. In a city that has struggles to find skilled blue collar employee, the shipyard employs anywhere from 250 to 1,100 workers from 10 different trade unions.

In fact, in the last two years, the shipyard at Pier 70 purchased \$18 million of goods and services from San Francisco companies by themselves. Drydock #1 is one of the largest drydocks in the Americas and the Eureka Drydock that Nancy Pelosi helped procure for the Port a number of years ago. It's been a nice drydock to enhance our business.

Their question was, "How does the shipyard with the redevelopment of Pier 70 fit into the development that's going around Pier 70?" It fits in very interestingly and smoothly. You can see the delineation of the Forest City Project that the Orton Historic Core, the Crane Cove Park. Ship repair, again, had been going on down in that location for decades. We can craft a deal that will be able to allow it to continue at the same time be good neighbors with the developments going forward.

Ricky's going to get in to the details of the agreement. In spite of all the good news, there are some storm clouds on the horizon. There's a new competitor, Vigor Marine, in Portland Oregon just purchased a new Post-Panamax drydock in China and it's here now and it's getting outfitted and will be in operation in the next few months.

Bill Dunbar - Actually, it started operation yesterday.

Peter Dailey – I've been informed that it started operation yesterday. There's going to be a commercial impact by the competition but we think we still have a very good position to go forward with. I'm going to turn it over to Ricky, and when he's done, I will introduce Bill Dunbar, the General Manager of BAE Systems San Francisco to give a brief overview of their operation.

Ricky Tijani, Development Project Manager with the Planning and Development Division of the Port - We are excited to be here. We've made substantial progress as Peter indicated. We are hoping that we will be able to come back to you on December 16, 2014 to have a deal. On the other hand, if we're not able to carve out some of the remaining issues, we may be heading back to you in January.

This shipyard, as Peter indicated, is located in Pier 70. It consists of 14.4 acres of land and 17.4 acres of submerged land, the two drydocks and 19 buildings. Those buildings are in different state of needing some improvement that is part of what we discussed in the lease in terms of the commitment and



they need to have this lease renewed so that BAE can make additional investment on the properties.

Besides the buildings and the line area, the main features of this shipyard are the floating drydocks. Drydock #2 with its awesome lifting capacity has the capacity to lift up to 54 tons. As Peter indicated, the new ships that are called Post-Panamax ships are huge. They usually carry up to 3,000 passengers and having that capacity is really helpful to allow cruise ships to come to San Francisco.

As Peter indicated, this shipyard will be facing two challenges. One that was mentioned is Vigor, the new drydock that is being commissioned at Portland. The other is the age of the drydock. In looking at this lease and renewing it, we do take all those factors into consideration.

Here is a picture of the Drydock #2 with its lifting capacity. This is another ship being shown on the Drydock #2. BAE currently has a lease with us that will expire in 2017. The current lease was entered into in 1994, so it has a 20 year track record with the Port.

Moving forward, BAE said they wanted to include some of the beneficial terms in the existing lease to be carried forward into the new lease. The current lease has a base rent plus a percentage rent. The current base rent is \$1,500,000 a year but it does not have an escalation component to keep with changing cost of living or inflation.

The lease currently requires BAE to continue to maintain the building and the equipment that belongs to the Port. However, there is no baseline established in the current lease. Nor there is a schedule as to when the equipment and the buildings are supposed to be maintained to certain standards. That is being carried over to the new lease but with some additions and improvement to enhance them. As Peter indicated, the Shoreside Power System was put in place in 2012 to reduce pollution. There is a couple of issues with respect to the shore power system in terms of recouping the investment that the Port made into it.

Currently there's a sub charge of four cents per square foot that BAE is supposed to collect through SFPUC to pass through to the Port. We think the utilization of the Shoreside Power System is not optimum, so we're looking for an opportunity to enhance that so that the Port could recoup the investment.

There's also an existing rent credit that was provided when the Port and Princess Cruise and BAE entered into an agreement whereby Princess Cruise said an improvement needed to be made to this Drydock to service their cruise ships and affiliate ships when they come to San Francisco. Part of that deal was Princess providing a \$3 million loan to BAE. The improvement at that time was estimated to be between \$5 to \$6 million to which BAE said,





"You know, the drydock is Port's equipment." That it would need some assistance.

The Port provided a rent credit to help fund the cost of the installation of that Shoreside Power System. The rent credit has been taken at a rate of \$300,000 a year. So for a 10 year projection, that rent credit is supposed to be exhausted in 2017. So we are renewing the lease, and BAE has not collected those rent credit, the balance of that rent credit would be carried over into the new lease.

Also, the existing lease has a yearly termination provision which is a standard point that tenants often require in the lease to say if things are not going the way they had planned or projected. If the revenue dips, they want an opportunity to opt out. When the fifth amendment to the current lease was entered into in 2007, BAE was not given the option to be able to opt out, not until January of this year.

That was 6¼ years from when that provision was provided. We are carrying forward the same term into the new lease because the new lease is going to be for 20 years. We are including a no opt out option, or no early termination until 12 years into the new lease.

The proposed key terms of the new lease are as follows: The initial term is going to be for 20 years with a provision for two five year extensions. If they do exercise the two extension options, we will be looking at a total of a 30 year lease. The base rent now has been increased by 14% to [\$1,200,000] in 2015 assuming that we are able to enter into a lease by the end of this year.

There is a table in the staff report that makes a comparison between the existing lease, (rent/revenue) to the Port and a new lease. The bottom line is that the base rent is going to have 3% annual escalation for the term of the lease. Currently the base rent which is only \$1,050,000 does not have an escalation. The importance of this is that the base rent will continue to increase which is a way to provide an assurance and guarantee for the quality and durability of cash flow to the Port.

The percentage rent is kept at 3.3% of their gross revenue. In the table in the staff report, you will see an indication that the base rent, the net rent to the Port are the same, under the current lease and the new lease. However, there's that guarantee of a higher minimum base rent to the Port over the term of the lease. Where, as I indicated earlier, there is going to be a no early termination of the lease by the tenant. We want the tenant to be able to stay there for a minimum of 10 years. At the end of that 10 year, they have to provide a two year lease to terminate so that that will give the Port the opportunity to issue an offering or look for another tenant to take over the shipyard.



As I have indicated before, there will be a repair and maintenance standard to be imposed. Rent credit is being provided. There is an additional rent credit of \$3 million to the existing \$1.2 million, as noted in detail in the staff report. The Port will be taking back portions of the premises to allow for the redevelopment of Pier 70. The first portion that we will be taking back will be the portion to help with the Crane Cove Park. We are going to use this opportunity to ask BAE to update the master plan and to include provisions to deal with climate change and sea level rise.

As part of the new lease, we're updating the community package component of the lease. This is in compliance with the Port Southern Waterfront Community benefit and beautification policy. BAE will be required to provide this list that I'm showing on the slide and reported in the staff report. However, I'm going to point out the three key components of this community benefit.

One is that we are asking BAE through the lease to increase opportunity for local hire. Currently their workforce composition consists of 65% of minorities. We're hoping that it could do better and improve to provide opportunity for local hires. We're equally asking them to utilize local businesses and LBE wherever and whenever possible.

We're equally asking BAE to cooperate and coordinate with Pier 70 tenants. This is to address the issue of, as we move forward and the new tenants in Pier 70 bring in visitors, and residents, and businesses to that location that the tenants will work along well with BAE to address the issue of quiet enjoyment as well as giving an opportunity for those tenants to address BAE's concerns.

We do know that the shipyard operations do generate noise, lights and sound so this would be an opportunity for BAE to work with the tenant by giving them a heads up when there's going to be those types of activities that the tenants and the residents need to be made aware of. Likewise, BAE would be given an opportunity by the tenant through this coordination to address some of BAE's concerns through site and building designs as well as improving and other things that they can do in terms of building orientation to minimize impact to both tenants.

The reasons for the new lease are enumerated in the staff report. However, I'd like to point out that because of the continued agreement with our partner Princess Cruises, who still has three years in the agreement with BAE, we think it's to the best interest of everyone to allow the lease to renew when we do come back to you.

The next step is outreach. We made a presentation to the Central Waterfront Advisory Group on November 12, 2014. There is a letter from the Co-Chair of that committee you expressing support for the proposal to renew the lease with BAE.



We are continuing with the existing negotiation. There are a couple of items that we still need to tighten up as well as the deal that we have on the basic general terms. To put them into writing and include them in the lease require special wording and additional review, which may take some time. We hope to be back for lease approval in December but it may take a little bit longer because of those issues that need to be incorporated into the lease.

Before the lease is approved, it is going to be subject to CEQA review and clearance particularly with respect to the demolition of Building 38 and 119. There's equally going to be CEQA clearance for the PCB that are to be removed from the shipyard and then come back to the Port Commission once the lease is in an executable form.

At this point I'm going to turn it over to Bill Dunbar, the General Manager for BAE to provide an overview of their operation.

Bill Dunbar, General Manager of BAE Systems San Francisco Ship Repair - I want to take a few minutes to tell you about our business there, what we're doing and what we hope to see as well in this next lease.

BAE Systems Ship Repair is the largest non-nuclear ship repair contractor in the United States. We have seven locations in the Gulf, East, West coast and Hawaii as well as a joint venture in Rota, Spain to support the Navy's pre-position ships there. We are very experienced in the ship repair area.

As Ricky said, the lease covers the Pier 68 and 70 areas and includes the water, the land, the drydocks and the cranes. We've been operating there, with our predecessor business Southwest Marine, for 27 years and look forward to continuing that.

Our biggest customer is the U.S. government or operators of U.S. government vessels actually. Military Sealift Command, the Coast Guard, MARAD, NOAA, we work projects for them. Cruise ships, as Ricky and Peter mentioned, the Post-Panamax vessels dock here. We cover most of the major shipping lines that come through San Francisco. We do a fair amount of work on commercial vessels, tankers, tugs and those kinds of operators and barge work and we're also available for emergency projects.

As some of you may recall, a few months ago, there was a tanker with an engine room fire off the coast of Oregon and that vessel ended up being towed back in to San Francisco and we were able to turn that around in about three weeks and get it back out underway again.

As was mentioned, our workforce is comprised of 10 local unions under the Bay City Metal Trades Council. Our union workforce fluctuates from about 125 to 325 depending on the workload. There are about 60 administrative and



management personnel. Then we supplement both with subcontractors which may flex up to 150 and we also can bring in skilled labor from our other shipyards, especially San Diego, Mobile and Jacksonville to supplement our work as well.

Sometimes we have a 1,000 or more jobs going. At BAE, we'll typically ramp up to about 550 of that number and then the cruise ships that are in will hire contractors on their own. Altogether you have that many people working, they're just not all necessarily under BAE's contract.

I just wanted to mention a couple things about why we're looking at this lease extension now. The current lease expires in 2017. We do the maintenance on the drydocks and in the last two years alone, we've invested over \$8 million in upgrades and maintenance on Drydock #2. We want to have the time to capitalize that expenditure as well as other improvements that we want to continue to make in the area. It does keep an active maritime presence and provides a lot of skilled and good wage labor.

Some of the community benefits were already mentioned and are in the staff report as well. We have, as Peter mentioned, contracted \$18 million worth of business to San Francisco businesses in the last two years, been pretty consistent, about \$9 million a year that we spend locally. We also try to work with a number of community groups. Right now we're working with the Bayview Historical Society and sandblasting and painting the sculpture Red Fish that they had down by Indian Basin as they prepare to move it to a new location.

When we do have a cruise ship in, there are a lot of folks on there every day that are spending and shopping in San Francisco so it brings a lot of business in on a number of levels.

We definitely want to work with the Port to get rid of the remaining PCB-containing transformers that are on the site, clean up the site with some of the buildings that are really an impediment to work right now and are condemned. We'll work with the Port on the development of a design for 19th Street Extension and how that changes the footprint of our property.

A couple of the environmental benefits I would like to highlight. I call it an oil trap. My environmental people call it an electro-coagulation treatment system. But basically all the water, rainwater or industrial use water from the drydocks is collected, tested and either treated for sewer disposal or else trucked out to an appropriate disposal.

We also now curtain the drydocks off whenever a vessel or any industrial activity is taking place. From the Bay Bridge you might look over some time and you'll see a big curtain over the end of the dock. That's to keep any contaminants from transiting into the Bay.





All of our sandblasting now is done with a fog nozzle process. It's a mixture of water that goes in with the grit so it keeps down dust and airborne contaminants from the area. We've also converted now to only using low VOC paints for spraying. We've continued to make some other changes in our business. We switched over a number of forklifts we use to propane and are continuing to make that switch for better air quality and continuing to implement every vessel that we're able, the Shoreside Power System that was installed.

Our entryway is changing and we're going to have to do some relocation as the 19th Street Extension comes in. I don't really have any graphic of that for you but I can show you what they did in San Diego. They have a little art project outside the wall. This was actually through a program called, "Washed Away." The sculpture there was made entirely of plastics that were reclaimed through beach cleanups. We're going to look at putting in some kind of a new front entry with a turnstile system and then some kind of a maritime motif. As part of the lease, we'll have a process to present those for approval before we make the construction.

That's the San Diego entrance for their worker turnstile entrance. We're not going to have a building quite that long as we don't have as much space as they do, but we'll have some kind of a similar entryway as we look at a redesign.

So that's a quick overview of where we're at. Thank you for the opportunity. We've done business with the Port of San Francisco for many years and it's been a cooperative relationship and I hope to continue that into the future. Thank you.

Ricky Tijani - That concludes staff presentation on this matter. Peter Dailey, Gerry Roybal, Rona Sandler and I are here to answer your questions and get additional direction from you.

Corinne Woods, co-chair with Toby Levine with the Port Central Waterfront Advisory Group - We have written a letter of support for the BAE lease extension. BAE has been tremendously cooperative as we went through the process of the Pier 70 master plan, making sure that when we were working on the master plan initially, one of our key bottom line requirements was that BAE had to stay. Whatever else happened. We've worked with them. They've worked with the community. They've agreed to change their entrance. They've agreed to change their footprint. They've worked with us to make sure that when we were designing Crane Cove Park that we would be able to have human powered boats in the cove and avoid interference with the big tug boats that bring their ships in. We feel that it's going to be a very beneficial, mutual relationship.



They're willing to work with the community to make sure that their operations and the non-industrial operations of the future Pier 70 work together so that both can continue. We're hoping that once the lease gets done that we can persuade BAE to come back on the CWAG.

Commissioner Brandon - How did you come up with the base rent calculation?

Ricky Tijani - Thank you for asking that. We came to that through three means. One is we conducted a survey through an appraisal firm to look at what the other competitor shipyards in California are asking for and charging and looking at the economic profile of this shipyard to set what rent level should be.

You're looking at what the current base rent is and what is fair in terms of increasing it to the new level, 14% increase we think is within being competitive. So we look at the existing rent. We look at the appraiser's survey of what other shipyards are asking for and then we look at the opportunity for participation and an upside so that's how we came to \$1.2 million as the base rent.

Commissioner Brandon - How much land is being given back to the Port?

Ricky Tijani - Those details are in the staff report. I don't know the exact size of those land area, but we do know that they're not significant in comparison to the entire property.

Peter Dailey - I don't know either but David Beaupre estimated that approximately two acres is being given back to the Port.

David Beaupre - Actually, it's closer to one acre.

Commissioner Brandon - Is there a schedule for the demolishing of the building and the removal of the PCB transformers?

Ricky Tijani - Yes, we are asking this to get done between one to five years.

Commissioner Brandon - Over the last several years, there were some complaints regarding discrimination. I'm wondering if we could have a brief summary of the status of those claims.

Bill Dunbar - Attached to the staff report is a copy of a letter I sent to Peter providing an update regarding that issue. There were a number of issues that were brought up in a couple different forums. About half of those cases have been dismissed. They're on one final appeal, but it's unlikely they will go any further. A couple of the cases, issues that were raised, the parties agreed to a



settlement without admitting any fault but because of the terms of the settlement I can't say anything more about those.

There's really only one case that is left that is open and that's set for trial in Federal Court next year. As I said in the letter, we certainly work to provide a workplace that is free of any harassment or discrimination. It's a place that's got a lot of people working around there though. We continue to do our best. I bring those up in meetings and in other opportunities I can to discuss them. We're very vigilant in monitoring the property for graffiti and any that does come up is immediately removed. We'll continue to watch that.

As Ricky mentioned, our workforce is 65% ethnic or minority personnel. We have a great cross section of folks who are working around. Once a month my human resources fellow does a diversity index snapshot and that was from the first of November. I would also note at that point when we had 220 people, about 44 of them were San Francisco residents. We are definitely getting some local hire work already and we'll continue to find ways to reach out there as well.

Commissioner Brandon - Thank you. I really appreciate that.

Commissioner Murphy - Does this drydock have the same lifting capacity as the one in Portland, your competitor?

Bill Dunbar - No, Drydock #2 has a lifting capacity of 54,600 tons. The drydock that was just commissioned into service this week has a lifting capacity of 80,000 tons. It's significantly bigger and bigger space between the wing wall. They might be looking at the Post-Post-Panamax class, or the next class of vessels that are coming out. So.

Commissioner Murphy - What would make it most appealing for clients to go to Oregon rather than come to San Francisco? Is it cheaper labor?

Bill Dunbar - Yes, price. You mentioned rent and certainly San Francisco, this is a high cost basis place for us to work and to operate competitively. One of the big draws, of course, in Portland is they have a lower cost basis and when we compete on head-to-head matters, they often win. Not always, which I appreciate, and we'll continue to work better and smarter but that's the big thing.

The downside for them is location. You have to steam up the Columbia River, a good nine hours probably. If you're a cruise ship, you lose a day both ways. Part of the good news is at the moment we still have cruise ship bookings into 2016. So even though people know there's a dock up there, they're still booking space here in San Francisco.



Commissioner Murphy - Could you be a little bit more specific about your marketing plan, how you market it in order so that we can benefit from the gross receipts?

Bill Dunbar – Sure, I have locally a business development person who works with me and works directly with clients seeking out opportunities. We also watch all the state and federal opportunities postings and so we watch for those when they come out. We work with our clients to find out what their upcoming repair needs and where they might be looking for. We have a pretty good handle on who the market is, who the ship owners are. We seek them out and try to make connections and make sure that we are placed in the best light for opportunities that come up.

Commissioner Murphy - Thank you and I have one question for Peter. On the liability insurance you have \$5 million in there. Isn't that a little low for something of this magnitude?

Peter Dailey - Actually, it's more than \$5 million. The City has a Risk Manager and all of our liability insurance and requirements are put through a very vigorous review. I don't have it in front of me Commissioner but it's more than 5 million. There's an environmental fee that we have in case there's an environmental issue.

Commissioner Murphy - I don't expect you to answer it now but I'd like an update on that.

Peter Dailey - Yes, at the next meeting I'll make sure I have more specifics for you.

Commissioner Woo Ho - A lot of questions have been covered. I do appreciate that we had a picture of what your San Diego entrance looks like and one of the issues that I think we have talked about here in this Commission, given that with both the Orton Development and with Pier 70, obviously you're going to have some more upscale neighbors. The whole neighborhood we hope will be going through a major change.

Can you give us a little bit more of an idea of what you're thinking of? How you will upgrade and what it will look like for the entrance in San Francisco? We would love to have a chance to look at that. I don't know what the immediate neighborhood that you are located in San Diego is like. We know here what we are hoping to see and hopefully how everything fits in nicely together.

Bill Dunbar - Thank you Commissioner, I appreciate the opportunity. What I am expecting, or anticipating as we redraft a master plan considering the location we're in and the changing configuration of the yard, I expect to go to a turnstile kind of entrance like you saw there and open up in the back of the





yard, where the triangle lot is, a turnstile employee entrance there as well. There'll be less traffic that goes right through the shipyard near Crane Cove Park. People would drive down 20th, come into the back lot and employees would enter that way.

With that entry, with a front gate there, a personnel office and then fencing for the rest of the area would be pretty much what the front entry, with some maritime motif decorations if you will around the entry that would tie in with the Crane Cove Park attributes.

Commissioner Woo Ho - Obviously, you haven't had a chance to design it but we're interested to see the design and how it can continue to beautify the neighborhood and fit in with the rest we know that's going in. We want to encourage you to come up with a great design.

Bill Dunbar - Thank you.

Commissioner Katz - We touched on climate change and sea level rise and that's probably a much bigger question than what we have time for today but it's impact on operations there and the provisions that will reference the impact of sea level rise. Do we have anything more specific or is that just a general statement?

Peter Dailey: It's somewhat general to be honest with you but it's something that we look at in every deal we do per the Commission's direction. The beauty of the facility here is with the floating drydocks, sea level rise is not an issue but for the landside, clearly it is an issue. In terms of this lease with BAE having essentially a 20-30 year lease, they're going to have to take steps to protect their assets and our assets from possible sea level rise and storm conditions.

The beauty of Pier 70 and Pier 66, the area is relatively out of the weather in terms of heavy swells. That's one of the reasons that the drydock was put there originally. I will circle back at the next meeting and have more detail for you in terms of how we can look at that more distinctly.

Commissioner Katz - A better way of phrasing it is, "Have we articulated responsibilities for steps that need to be taken?" In terms of what party is going to have the responsibility for adjusting for that?

Peter Dailey - BAE has all the responsibility. We will come back to you and we will talk some more and have some more specifics for you at the next meeting.

Commissioner Katz - Thank you all very much for the presentations and Bill, thanks for coming.



## 12. PLANNING & DEVELOPMENT

- A. Request approval of an Amended and Restated Exclusive Negotiation Agreement between the Port of San Francisco and Seawall Lot 337 Associates, LLC for the lease and development of Seawall Lot 337 and Pier 48 bounded by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay and adjacent to AT&T Park. (Resolution No. 14-60)

Phil Williamson, Senior Project Manager with the Port's Development Group - Since executing a two phase Exclusive Negotiation Agreement in September 2010 for the development of Seawall Lot 337, also known as Giant's Parking Lot A, and the adjacent Pier 48. Seawall 337 Associates, LLC, the Port and the City staff have negotiated a non-binding term sheet with proposed financial terms for the lease and development of the site. Last year, along with the Board of Supervisor's separate action, unanimously endorsed the term sheet which completed phase one of the ENA.

As described in the term sheet, the Port and developer have proposed a mixed use neighborhood for Seawall Lot 337 with appropriate height and density to create a vibrant walkable neighborhood with new parks, and public open spaces, commercial space, residential space. This past June, the voters of San Francisco passes Proposition B, whereby development of Port property exceeding height limits now requires voter approval, in addition to the typical regulatory approvals we're familiar with on Port projects.

This unanticipated requirement necessitates an extension of the ENA along with the following proposed amendments to the ENA. Acknowledgement that developer has satisfied all phase one performance benchmarks, as they have. Revising phase two performance benchmarks in accordance with the expected approval steps. Acknowledging that phase two of the ENA will expire the earlier of December 31, 2019 or 12 full months after developer obtains voter approval of the proposed height limit. Revising the definition of "outside transaction costs" to include project management services of two full time Port and City staff and adjusting the Port's right to review evidence of developer's financial capacity at dates certain going forward. Port staff recommends your approval of the amended and restated exclusive negotiation agreement as described in today's staff report and resolution and as mentioned our project team is available should you have any questions or comments for us.

Corinne Woods – I'm not speaking on behalf of CWAG because we haven't talked about it, but it's totally appropriate to approve the extension of the ENA. We need to let the dust settle on Prop B, hopefully resolve the legal issues that are under consideration now by the state. In the resolution, one of the things it says is that, "The development agreement should be in the best interests of the Port and not materially increase the obligations or liabilities of the Port or materially decrease the public benefits accruing to the Port or the



City, fulfill the expectations of the Port that the development will in fact do what we all planned for it to do when they talked about developing this empty lot."

This is going to be very tough to have the Port get the kind of return that it's going to need with this Prop B limitation. I think that this is something that you all are going to have to really look at. I'm sorry that Jonathan's leaving us because I think the financial issues are going to be enormous for the Port if you're going to spin off any kind of Harbor Fund revenues in a development that's constrained by nimbyism. We will continue to work. CWAG will continue to work with the Giants on this project. We hope it will go forward in a way that's of benefit both to the neighborhood -- my neighborhood, I live there -- and to the Port.

The second amendment, item five, which says, "It's done." It isn't done. There may have been an agreement in principle to include what was Mission Bay Park P20 as part of the Seawall Lot 337 project but as far as I know, this still needs required authorizations from the State Lands Commission, the Legislature, the Successor Agency, the Oversight Board, the Board of Supervisors and other City agencies. To the best of my knowledge, that hasn't happened. To the Successor Agency's knowledge, that hasn't happened. I think that needs to be put back as an item that has to be done.

Commissioner Brandon - Which benchmark?

Corinne Woods - Page three, number five.

Commissioner Katz - Under the second amendment?

Corinne Woods - Under the second amendment, "Expand the site to include P20 and the approximately 0.58 acre marginal wharf." The P20 part is subject to the Mission Bay Plan. There are a lot of approvals that need to be done and that should go back on the To-Do list.

Commissioner Katz - Phil, before we ask questions, could you address that point?

Phil Williamson - Yes, let me read number five into the record and I'll have a response.

Item 5 for the second amendment in the staff report reads, "Expand the site to include P20 and the approximately 0.58 acre marginal wharf between Pier 40 and Pier 50." Ms. Woods' comment was regarding P20. And then it says, "Done." With regard to the Giants or the Mission Rock development, it's been done as far as acknowledging --

Commissioner Katz - Expanding the site.



Phil Williamson- That the site is there and as far as planning the site and planning how the site's going to work and the infrastructure, we want to have the ability to do that so that we can plan comprehensively. But as the footnote clearly states, we have a lot of work to do. Corinne is exactly right, there is a lot of work to do and the approvals before that would be legally viable.

Commissioner Katz - If I could restate it then, the "Done" refers to the fact that P20 is just included in the project, not that all the approvals and not that the planning forward's been done.

Phil Williamson - Correct. Your prior approval of adding that to the site was with all the caveats in them.

Corinne Woods - To do.

Commissioner Katz - Yes, lots to do.

Commissioner Brandon - Can you just briefly summarize what the new phase two benchmarks are?

Phil Williamson - The benchmarks largely stay the same. What this ENA amendment accomplishes and what the new benchmarks accomplish, it allows for some additional time to get to a ballot in the future. We don't have a clear, confirmed ballot date yet, the benchmarks are largely the same. The new one is the height limit adoption which is the ballot measure. Putting that out there with a "Must Accomplish" date of December 2018, then allow one more year beyond that to get all the CEQA approvals and the full entitled project accomplished. What we've done in the benchmarks is add the capacity to expand into various election windows going forward.

Commissioner Brandon - What was the original benchmark date?

Phil Williamson - 2016.

Commissioner Brandon - Is there a fee associated with this extension?

Phil Williamson - The fee for extensions are the same. They're \$50,000 per extension. We don't know how much time we'll need yet because we haven't figure that out yet. We're working on figuring out an appropriate ballot to aim for, but the fees still exist as they did before.

Commissioner Woo Ho - When is the next fee applicable?

Phil Williamson - I believe the first fee would be applicable in 2018.

Commissioner Woo Ho - I think we've already received one fee with the last extension, right?





Phil Williamson - Yes, there's been one extension.

Commissioner Murphy - I'm in support of moving this forward as long as we work out all our obstacles and snags.

Phil Williamson - Yes. Thank you Commissioner.

Commissioner Katz - Likewise, I support our taking the time to make sure we get everything right and get the full community support. Thank you for bringing this forward.

ACTION: Commissioner Brandon moved approval; Commissioner Murphy seconded the motion. All of the Commissioners were in favor; Resolution No. 14-60 was adopted.

- B. Informational presentation on Lease No. L-15892 between the Port of San Francisco and TMG Pier 38 Partners, a California Limited Liability company for premise located at Pier 38 in the Central Waterfront on The Embarcadero at Delancey Street with an initial term of 25 years plus two (2) five (5) year extension options granted at the sole discretion of the Port.

John Doll, Planning Development - I wanted to give you a brief overview of what the flavor of the development's going to look like and an outline of the business terms.

First and foremost, Pier 38 has been vacant since October 2011. The Port issued an RFP for the Pier 38 bulkhead in November 2012. The goal of the RFP was to repair and re-tenant the bulkhead building defined in the RFP as, "The bulkhead structure plus a portion of the pier shed," with the intent of bringing it back into economic use, creating a waterfront amenity and providing ongoing revenue to the Port.

The RFP, by virtue of just being the bulkhead, did not extend to the entirety of Pier 38. The RFP acknowledged that a proposed project would be relatively small in scale but would require substantial investment to rehab the building in order to amortize the capital investment. We knew from the outset that this would be a very challenging project. The Port received two responses to the RFP. Both responses proposed a similar use program and lease term.

Both responses proposed a 20-25 year lease term which is and this is unlike other lease improvements that can be performed within a 10 year interim lease framework and it's also different from doing the entire pier structure which would necessitate a pier seismic update of the pier which would require substantial investment and a 66 year term. This is kind of a unique and hybrid project which has made this project particularly challenging.



In December 2013, nearly a year ago, the Port Commission awarded the development opportunity to TMG Pier 38 Partners which is a partnership between TMG as well as with Premier Structures, which is a LBE. Port staff believes that TMG as a master lease developer will bring a high quality development project as well as high quality tenancies. The Port has submitted a staff report for your review that outlines the potential project. We would love to get your feedback on that.

In a moment I'd like to introduce TMG representatives to describe the project. Their program to repair the bulkhead, their strategy to re-tenant the bulkhead with office and retail mix uses, as well as a program to enhance public access and maritime uses that will inevitably complement the relatively new Brannan Street Wharf. Depending on your input and direction, Port staff intends to complete negotiation and lease documentation and bring it back to you for your consideration as early as December 16, 2014 if possible, depending upon a determination of environmental review. In conjunction with that, we will have had conversations with BCDC and the State Lands staff with regards to maximum public feasible access as well as with Trust consistency.

I'd like to introduce you first to Michael Covarrubias and then Amy Neches of TMG. They will describe how they will make the Pier 38 bulkhead improvements and bring this Port asset back to economic use and then following that, Jeff Bauer of staff will present an overview of lease terms.

Michael Covarrubias - We're pleased to be back here. John described a little bit of where we are. It's been an interesting couple of years. As I think all your projects are, this is a complicated Port lease structure, so we've been working on it really hard. We think we've made great progress and we think we're ready to sign a lease.

It's been an effort to try to get the goals of the Commission, which included things like reactivating the pier, making things happen that were exciting. We appreciate the group before us for winning the World Series so the neighborhood is even more exciting than it was before. We think that's going to be a big factor going forward.

We structured a couple of things to help the Port in terms of the substructures and the reserves that were required. We gave a couple of options to the Port to terminate the lease with certain penalties, all of which was in effort to meet the Port's requirements as well as us to create a financially viable and an exciting project.

We're pleased to be here. We're at the seven and a half yard line maybe of getting a document ready for you to sign. As the one who needs no introducing, Amy Neches is going to give you a little bit of a tour of the project and tell you where we are.













Commissioner Katz - Just to say, we've lost our football team. So maybe you're at third base and ready to get home.

Michael Covarrubias - I hadn't thought about that. They're still called the San Francisco 49ers.

Amy Neches - We are really pleased to be here. We've been working a long time with you and your staff on this project and we're pleased to show you where we are and hopefully be ready to move forward with you.

As we've thought about this project as we've been working on it with you, we've had a number of goals that have been really informed our negotiations and our planning. One of course is to help meet your goal to rehabilitate the pier, to put it back into active use, and to make it something that is a public benefit to the community and to the Port.

We've been very focused on trying to maximize the use of the Port consistent with the occupancy limits and the seismic condition. As John explained, we are not doing a full seismic upgrade of the pier, although we will be doing some substructure repairs. As a result, we are limited based on the codes to a certain occupancy level which just happens to be 634 imputed persons in the pier.

We have worked very hard along the way to make sure that we have a project that will work for both BCDC and State Lands to make sure that we have an approvable project. Finally, and certainly not least from our point of view, we have worked very hard to get the right balance so that we have an economically feasible project that balances investment in the bulkhead financial investment with the opportunity to do leasing that supports that financial investment.

We have put together a team that we think is fantastic. In addition to our JV partner, Premier Structures, we have fantastic consultants. You will recognize many of these names. Kathy Simon and her team at Perkins + Will were the architects for the Ferry Building for Pier 1. I particularly note that Holmes Culley is a fantastic structural engineer. They have recently done both the Exploratorium Pier and the Pier 35 Cruise Terminal project for you. We feel that we've surrounded this project with the best team that knows how to move this forward.

The context for this project is South Beach. As you look at this, you can see Pier 38, with the foot of Townsend Street, between Townsend and Brannan is in outline. To the south of us is the Ballpark, South Beach Harbor, and to the North of us is the brand new Brannan Street Wharf. Pier 38 is an important part of that pedestrian experience of these parks and these open spaces in this public realm.



This aerial view close-up is helpful. It shows not only the portion, the bulkhead which is on the left, but that white portion just behind the bulkhead building is this thing that we refer to as, "The Mezzanine Area." It's an area, I couldn't say quite why the roof looks different but it does. It's the area that was originally, that was built out for office that will be reused that John was referring to. You can see the existing finger pier that exists that was built and is existing now.

This is the parcel plan for the project. On the left is the bulkhead in green. Behind it is this mezzanine area which is actually two levels, in blue. Behind that is the pier, and then north of it in yellow is the north apron. I'd like to break that down in a different way for you really by uses.

The area outlined in red, which is the northern portion of the first floor which faces out onto the Embarcadero, faces the Brannan Street wharf and onto that north apron is designated to be a full service restaurant. It's about 3,500 feet and right adjacent to it is an outdoor dining area on the north apron.

The balance of the first floor south of the entryway and that entire second floor that you see placed just below for the purposes of the plan -- that's going to be office space. That's about 20,000 square feet of office space. In this entire project we have this about 23,000 occupy-able square feet that is the economic driver for the project. That's where that 634 imputed people will be under the occupancy code.

Moving back into what is called Parcel C in the memo that you got from the staff, this is the open shed area. That is not part of the permanent occupancy, but we will use it for accessory parking for our tenants. We have been in discussions with the staff and with the Port Fire Marshal as the potential to use it for periodic special events, subject to the ability to get a temporary public assembly permit for each event and make sure that it's safe for use and that is what our intention is.

To the north of these uses is the north apron that you see outlined there, including the marine structure. That's all together about 11,000 square feet. Coming in closer on that, you can see, this is our public access plan. You can see that we will be having the outdoor dining just adjacent to the building and then a broad public walkway that will connect to the marine facility that will be used for guest docking and water taxi.

In addition to the north apron becoming public access which it was under the previous tenant, for the first time that floating dock will also be dedicated public access and will be available to the public at all times, except in the middle of the night perhaps.



The public access area will be improved with benches, with tables, with lighting to make it an amenity. It faces the Brannan Street Wharf. We think it will be very nice.

The investment to support those uses that you've just seen is quite substantial. We'll be doing work to the facade, to the roof and windows, to all kinds of systems. We'll be doing a great deal of ADA upgrades including a two-stop elevator to make the upstairs accessible, making the bathrooms accessible. The project needs a great deal of work. All of the work that we do will be consistent with the Secretary of the Interior standards for historic buildings because this is a historic pier. I believe one of the oldest piers on the waterfront.

As you can see, our initial improvement costs are in excess of \$7 million. This is in addition to costs for things like tenant improvements, commissions. The total project cost is in excess of \$10 million. That will be our investment in this. I'd like to show you what some of that money is going to look like sort of from the outside.

This is a picture actually taken from the Brannan Street Wharf which shows that the north facade of the pier, actually adjacent to the future public access way. As you can see, it's not in very good shape. Some of the roll up doors have actually been removed. It's really in pretty rough shape.

Commissioner Murphy - That's where it says, "condemned."

Amy Neches - It is condemned, exactly. We've been scrubbing the paint. This is a close up of some of those openings and you can see it's not really a credit to the Brannan Street Wharf or to the condition of the waterfront. Therefore our intention is to repair that facade and put glazing into those very large, very gracious openings.

We will do an appropriate historic treatment, which is actually to roll-up the roll up doors where they still exist and protect them while creating a glazed opening that allows light in and allows the public to see into the historic structure and will look really nice.

This is similar images of the new glass infill windows. Actually this is Pier 1. In contrast, the openings in Pier 38 are much larger and will actually be much more dramatic. This is the front facade, the west facade, the entry to the building. It retains virtually all of its historic features but you'll notice that the front of it is now just closed off with a fairly unattractive chain link fence. Our intention is to put a glass roll up door in there that will allow light to come in and as well cleaning up and repairing the facade.

This is the current state of that north apron. This picture was actually taken from inside a lock gate which now presently closes that supposed public



access off so that the public cannot enter it. As you can see, not only do you have those very messed up looking roll-up doors on the west facade. The decking is in very poor shape. It would not be comfortable -- particularly for someone who's got a disability problem. The railing is in very poor shape. It is not looking too well.

We intend to do a full level of upgrades to that area to help integrate it into that waterfront promenade, into the Brannan Street Wharf. We will be upgrading the railing. We'll be putting new decking in, lighting, new benches. We will of course also have an outdoor eating area adjacent to the restaurant which will help enliven it.

Commissioner Murphy - You're just going to upgrade back as far as that gate there?

Amy Neches - That is correct. The rest of it has not been structurally repaired and cannot be used. This is a more close-up view of what those infill windows will look like as you're standing on that public access area and give you a sense of the ability to see in and have a different experience of the pier.

Finally, this is the view right now. You can see what is supposed to be the public access area on the north side, the left side of the front facade there. Here's a rendered idea of what that would look like with the restaurant activity on the lower north side. Office use above and this very improved public access area on the north side of the pier that you see there.

Moving forward, as John alluded, we have been making excellent progress getting this project ready for your approval. We have had excellent discussions with the State Lands Commission staff just last week in which they seemed very enthusiastic about the project, about the uses, about the public access elements and the lease terms that were discussed with them.

We've had multiple meetings with BCDC staff to develop that public access plan that you see and we believe that they are prepared to recommend that go forward. We are working through the CEQA review that is based on the historic resources evaluation report and of course we are trying to finalize the lease terms with your very hard-working staff.

Once we get the lease approved, which we hope including the Board of Supervisors will be early in 2015, we will start to work on pulling our permits. Once we pull our construction permits, the construction period for those initial improvements is about six months.

Thank you very much for listening and we are very happy to tell you anything in addition about the project or answer any questions you may have about the transaction.





Jeffrey Bauer, Port Leasing Manager - The lease provides for a term of 25 years. There is a 12 month abatement period in which no rent is paid. That can be extended under certain conditions for another 12 months. There are two five year extension options and the lease provides for a market rate adjustment. Just to clarify the title on the staff report -- those options would be exercised if there was a need to further amortize any substructure improvements.

That was one of the challenges of this lease is you have a small footprint, you have a large investment in a short-term to try and amortize those improvements. The lease also provides for a CPI every five years. There's a floor, no less than 10%, no more than 20%. The rent is equal to the greater amount of the base rent or 15% of effective gross income.

The lease provides for 15% net proceeds on the sale or transfer. There's a minimum as Amy said, a minimum investment of \$7.2 million. There is the ability, as the lease provides for rent credits, of total rent, 50% of the total rent may be applied for as rent credits for base building and core and shell only. There are no credits for tenant improvements.

There's also an additional 25% sinking fund. We haven't totally worked out how we're going to address this issue. But there's an additional 25% credit that will be used towards any kind of additional substructure repairs. The Port has the right for early termination which is unusual. The lease encourages local business enterprise.

Climate change, we anticipate the term of the lease that this will not be impacted in this short term of the lease, 25 to potentially 35 year lease. There's a security deposit that is due of \$50,000 and there's all performance and contractor guarantees for completion of the project.

John Caine, owner of HiDive Restaurant, Pier 28½ - Hi Dive is one of the closest restaurants to this project. I'm here to strongly support this project. I think a restaurant's a great idea there. I'm from the school of restaurants, more is better. The more people that come down there, especially during that window of two hours before the game, two hours after the game is a great opportunity for more people to feel comfortable walking down towards BART or any other forms of public transit to get to the game.

Then the special events opportunity here is great for the whole neighborhood. Our biggest weekends ever were this last World Series, this past Fleet Week and the America's Cup last year and this is an opportunity for those kinds of events to bring greater impact into the neighborhood. I strongly support the plan and urge you to approve it.



Commissioner Murphy - What does this escalation mean on the spreadsheet, 117, 713? I know what it means in real estate terms.

Jeff Bauer - Is that the CPI you're referring to?

Commissioner Murphy - Yes.

Jeff Bauer - The escalation? It's the minimum rent, the base rent, there's an escalation. It's every five years. We do a CPI, the minimum is 10%, the maximum adjustment would be 20%.

Commissioner Woo Ho - Hard costs? I think that's confusing. It's in the category of construction hard costs yet you're referring to rental payment. So I'm not sure whether those are ...

Monique Moyer - Exhibit B, which is the construction page.

Commissioner Woo Ho - Exhibit B, I am not reading that that's part of the lease payment.

Amy Neches - Commissioner I'm going to jump in and try to help. I know what we're talking about. This is on Exhibit B. When we do the initial projection of costs, we do a projected escalation based on when we think construction will start, based on where we think construction costs are going. However, the actual initial improvements cost which form the rent credit amount, will be based on actual costs.

Our escalation estimate may be high, it may be low. This is just an estimate for now since we had plant construction out there doing this estimating probably at this point six months ago. We're not going to start for a few months. This is just an estimate. The actual costs will be based on the actual contract and the costs will be verified by your staff.

Commissioner Murphy - There's no de-escalation, correct?

Amy Neches - We would all like to see some de-escalation in construction costs.

Jeff Bauer - We typically plan about a 15% annual escalation in construction costs.

Commissioner Brandon - s there any percentage rent on this lease?

Jeff Bauer - Yes, 15%. The rent is calculated, 15% of net effective income.

Commissioner Katz - But that's base or 15%, it's not --



Jeff Bauer - Well, the greater of. We're guaranteed \$25,000. On the up side we participate the greater amount of \$25,000 or 15%.

Commissioner Brandon - And is there a CMD goal on this project?

John Doll - Not yet, but there will be. When we bring this project back to you, there will be a CMD goal.

Commissioner Woo Ho - Assuming that we go through the approval process, this is informational and then we go through final approval. When's the timeline for when we will actually see tenants in this building?

Amy Neches - We would hope to see tenants in the building next fall. We have to get the lease approved. We have to get State Lands wrapped up. We have to get the BCDC approval. We have to get our permits. As you all know, that takes time but we would hope that by next fall, we would have tenants in place.

Commissioner Woo Ho - Are you in negotiation with some prospective tenants now or you're waiting?

Amy Neches - We are in discussions now.

Commissioner Woo Ho - At what point would you be able to disclose so we have a sense of what kind of tenants are coming in?

Amy Neches - I think after those leases are signed.

Commissioner Katz - Your prospective lessees would probably have a lease first before they could conclude anything with you.

Amy Neches - I would imagine.

Monique Moyer - I just want to clarify Commissioner Brandon's comment on the CMD goals, the LBE. The lease doesn't have a CMD goal under the administrative code, but the Port Commission does. John is correct that we are still discussing that. You'll see that discussion at the bottom of page six of the staff report. I just want to clarify that the City's official Contract Monitoring Division (CMD) will not be setting a goal but the Port staff will be negotiating a goal. Is that responsive Commissioner?

Commissioner Brandon - Yes, thank you.

Commissioner Katz - I had a couple questions with respect to some of the improvements around the apron. It was highlighted that there would be some improvements on, extending out public access along the apron area there



that I guess there'd be some impacts potentially improvements on substructure. Was that contemplated initially in the area?

Amy Neches - Let me get back to that drawing very quickly.

Commissioner Katz - What I'm getting at is just substructure costs and responsibility for that area.

Amy Neches - The area that you see in yellow is the area that had substructure repairs done by the prior tenant which is why that is the limit for repairs for us. We have inspected it. We believe it is generally sound. There will be repairs to it but we believe that it is structurally appropriate. Going beyond that would actually be virtually impossible without doing a full seismic upgrade. But this area is reusable and I think will support the uses very well.

Commissioner Katz - Thank you. One of the questions that I had in terms of the expansion into the area C, I guess it was termed in the inside of the shed for sort of potential events, that sort of thing. So that would be some additional funds -- whether there'd be a split on the revenue generated from those events or how that would work?

Amy Neches - Any revenue that we earn from that would also become part of your 15% participation. If it goes well and we are earning revenue, you will be as well.

Commissioner Katz - And will that be separate ...

Amy Neches - No, it goes into the whole thing.

Commissioner Katz - We've got a good sense of it so far. We're excited to see this project moving forward and as was pointed out, it's an area that's becoming more and more lively and it's a great time to see it getting back up online so to speak.

### **13. FINANCE & ADMINISTRATION**

A. Request approval of Fiscal Year 2014-15 Executive Director Salary.  
(Resolution No. 14-61)

Elaine Forbes, Deputy Director, Finance and Administration - The item before you as Commission Secretary said is to set the Executive Director's salary and working conditions for the current fiscal year, FY 2014-15. The Port's Executive Director is somewhat unusual in that it's not represented by a union agreement, an MOU, nor is it covered by a labor contract as with Department Heads at the MTA or PUC.





The charter grants this body exclusive authority to set the compensation of the Port Director and the charter also provides that the Executive Director's compensation shall not exceed prevailing salaries paid to others holding similar positions in comparable maritime employment.

In prior years, we've provided you with a salary survey of Port Directors of major West coast Ports and of Directors of Enterprise Departments similar within the City and County of San Francisco. We recommend, consistent with past practices that the benefits and working conditions for our Executive Director be in accordance with the Municipal Executive Association, MEA Memorandum of Understanding. Most City Department Heads are represented by MEA.

We surveyed eight Ports and looked specifically at five of those which are sea ports. The average salary is \$272,000 as of November 5, 2014. It ranges between \$225,000 in Stockton to \$350,000 in Long Beach. For the Directors of other Enterprise Departments that are similar to the Port, the average salary is \$280,000 with a range of \$219,00 for the Department of Public Works to \$310,000 at the airport.

Our Director's salary is lower than the average of other seaports by \$21,432 and lower than the average of similar Department Heads in the City and County of San Francisco by \$29,000.

As a matter of practice, you typically set our Executive Director's increase consistent with MEA. This year, all MEA represented staff have a 3% increase effective October 11, 2014. That is really equivalent to a 2.07% increase for the current fiscal year. We do recommend that you increase our Executive Director's salary at least this much consistent with the MEAs schedule.

The Commission has the authority to further increase our Executive Director's salary within the prevailing wage range of the other sea port directors. You could also set the salary for budget, FY 2015-16 since the MEA MOU is set for next year.

The resolution as currently crafted is just for the current year. We also recommend that the benefits and working conditions for the current year be the same as our MEA MOU provides.

Commissioner Katz - In looking at the numbers and knowing the restrictions that have been placed on salaries the past several years, that our Executive Director's salary is significantly out of synch with other sea ports and department heads, I'd like to explore increasing that recommended salary number to something a bit higher, in the range of \$262,000 which would be not quite \$4,000 over what was recommended in the staff report. Commissioners, if you have any thoughts.



Commissioner Woo Ho - Could you translate that into a percentage, overall percentage, from her current salary?

Monique Moyer - Five percent. I can do it in my head, I think. It's \$12,000 over my current salary which would be about 5%.

Commissioner Woo Ho - Elaine, just so we understand from a forecasting standpoint I think it is the preference of the Commission not to do multiple year increase at this time even though we know the budget process allows us to do that. We just want to understand that if we were going to increase more than the current percentage that you recommend according to the MEA guidelines that that would not push us into having to do something less next year, do you know what I'm saying?

Elaine Forbes - It would not. The Port has a certain level of salary savings. We certainly budget by position and then we have vacancies and attrition and it takes some time to hire so we always have a little bit more salary allocated than we have specifically budgeted because not every employee is pulling on their salary every day so we can certainly afford a slightly larger increase.

Commissioner Woo Ho - We wouldn't want to hear next year that, "Oh, because of the budget, that we have an issue now."

Elaine Forbes - No.

Commissioner Woo Ho - No. We just need to understand the consequences of the actions that we take now.

Elaine Forbes - Absolutely. Our salary savings is in the \$100,000 range and certainly it's within your discretion to increase the salary above our recommendation within that range.

Commissioner Woo Ho - Also the budget, even though it's a two year cycle, does it get re-forecasted too or is there a reforecast some point?

Elaine Forbes - It does. We do what's considered administrative. If there are changes in health benefit costs or retirement costs, those get rolled through the system. Usually that hits our fund balance if it's to the bad or to the good. But for a change of this magnitude we wouldn't need to adjust the budget because we have enough flexibility in our salary line.

Commissioner Woo Ho - Okay.

Elaine Forbes - It is about 5%.



Commissioner Woo Ho - So it's 5%. I guess we need to amend the motion then and it's best to put it in not just dollar terms, but percentage and dollar terms. If it's 5%, it's an increase of \$12,000 over the current. The resolution does indicate that it's just for this current fiscal year, correct?

Elaine Forbes - Correct.

Commissioner Woo Ho - We are saying that we want to continue to do an annual review on the future basis so that we're not necessarily doing a multiple year increase at this time. It is subject to annual review.

Commissioner Katz - It would not necessarily be in keeping with MEA requirements. For subsequent salary reviews, it would still be in the Commission's discretion.

Elaine Forbes - That's correct. What we would do is next year, MEA has an increase of 3.25% in October. We would recommend 3.25% increase on this new adjusted base and the Commission could then decide. It is within your discretion to accept that recommendation or modify it.

Commissioner Woo Ho - Congratulations.

Commissioner Katz - Thank you. I hope you take it as a sign that we've appreciated all your hard work and dedication and turning back a lot of other items that could've been utilized when we were in a budget crunch, so thank you.

Monique Moyer - Thank you. I appreciate it very much.

ACTION: Commissioner Woo Ho moved approval of the resolution as amended; Commissioner Brandon seconded the motion. All of the Commissioners were in favor; Resolution No. 14-61 was adopted.

#### **14. NEW BUSINESS**

Commissioner Woo Ho - May I ask what's happening with Pier 29½ or the bulkhead building

Monique Moyer - It's not agendized, so I can't answer you at this time but I can put it on a future calendar to discuss. But the short answer is, "Nothing at the moment."

Commissioner Woo Ho - Can we put it on the future calendar?

Monique Moyer - Yes, will do.



## 15. ADJOURNMENT

ACTION: Commissioner Woo Ho moved approval to adjourn the meeting in memory of Sal Tarantino; Commissioner Brandon seconded the motion. All of the Commissioners were in favor.

At 5:50 p.m., Port Commission President Leslie Katz adjourned the meeting in memory of Sal Tarantino.











